

# ACTIVATING AMERICAN INVESTMENT OVERSEAS FOR A FREER, MORE OPEN WORLD

How the Development Finance Corporation  
Can Better Mobilize Private Capital

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## Forward

The Wilson Center's *Wahba Institute for Strategic Competition* convened several working groups during 2023 to provide policy recommendations for mobilizing private investment in international infrastructure. The groups comprised experts from government, law, finance, and the private sector. Their recommendations, which focus on strengthening the US International Development Finance Corporation (DFC), are detailed below. The findings were first presented at an event *Mobilizing Private Investment in International Infrastructure* in November 2023 at the Wilson Center.

This report highlights seven core recommendations and includes insights from participants. Taken together, these ideas will help the DFC activate more private investment that incorporates America's high standards of transparency and sustainability.

Summaries of work by the three working groups follow this report. They include additional recommendations that would strengthen the beneficial impact of a range of agencies. Taken together, the recommendations provide policy makers a roadmap for how the US can activate more private investment in international infrastructure, elevating market opportunities and quality of life for people around the world while also benefiting the US economically and diplomatically. We at the Wahba Institute for Strategic Competition are grateful to each of the working group participants, who devoted significant time in sharing their highly informed insights.

We hope the recommendations provided here will help strengthen the US's economic diplomacy.

### **Sadek Wahba**

Chairman, Wahba Institute for Strategic Competition



## Executive Summary

Financing foreign infrastructure is a win-win situation for America and host nations. Robust, modern infrastructure boosts development abroad while also creating opportunities for American businesses and advancing US foreign policy goals. The US International Development Finance Corporation (DFC) has led recent US efforts to promote private investment in international infrastructure to advance development, climate and strategic national goals.

DFC has made progress since its founding in 2018, yet the global infrastructure funding gap remains massive, and the US still trails the scale of comparable agencies in partner and competitor nations relative to economic size. Policy changes can help the DFC activate more private investment in countries where America has clear economic and diplomatic interests. We offer policymakers the following seven recommendations to help embolden the DFC and help ensure a peaceful, prosperous global economy.

These recommendations will help create a stronger DFC—one that better meets the needs of today's competitive environment and helps ensure future opportunities for US firms and the American people.



*Left to right: Ambassador Mark Green, President & CEO, Wilson Center; Development Finance Corporation Deputy CEO Nisha Biswal; Sadek Wahba, Chair of WISC Steering Committee, Wilson Center Global Advisory Council Member; Mark Kennedy, Director, Wahba Institute for Strategic Competition*



► **Recommendation 1: Modify the board structure**

To better assess the risks and returns of potential investments in a timely manner, the DFC board should be modified to include five members each with extensive experience in emerging and developing country finance. Political appointees could serve in *ex officio* roles.

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► **Recommendation 2: Make compensation for professionals more competitive**

To better recruit and retain qualified staff, the DFC should be given greater flexibility to compensate professionals in accordance with standards in legal and financial industries, in a manner similar to the authority already granted to the Securities and Exchange Commission.

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► **Recommendation 3: Require a single environmental review**

To expedite project approval while still maintaining high standards, only one environmental review to be shared across agencies should be required.

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► **Recommendation 4: Treat equity investments more favorably**

To better reflect the returns on infrastructure equity investments, accounting standards must be changed, and those returns should be directed to a revolving account at the DFC for reinvestment elsewhere.

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► **Recommendation 5: Encourage more subordinated debt**

To activate more private investment in international infrastructure, the DFC should be encouraged to offer more subordinated debt deals.

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► **Recommendation 6: Allow private participation in DFC loans**

The DFC should be encouraged to sell participation in performing loans to attract private capital and free up DFC resources for other projects.

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► **Recommendation 7: Expand the list of nations eligible for investment**

To ensure that the DFC can pursue America's strategic interests, the list of countries eligible to receive money should include middle-income nations as classified by the World Bank.

## Opportunities for Strengthening the US International Development Finance Corporation



“This is no longer a race to the bottom” but, rather, [America] is driving up the quality, the transparency, and the sustainability of infrastructure projects.”

**NISHA BISWAL** Deputy CEO of the US International Development Finance Corporation



“American global leadership means harnessing the might of private enterprise to help countries go from being aid recipients to development partners.”

**AMBASSADOR MARK GREEN**  
President & CEO, Wilson Center

The United States prospers when global markets are free, open, and stable. Financing strategic investments in foreign infrastructure can help achieve this goal. Infrastructure creates opportunities for US firms to reach new customers, it helps build more resilient supply chains, and it even bolsters our nation’s security by deepening America’s engagement in key regions of the world. All of this is done while upholding good standards. As the DFC’s Deputy CEO Nisha Biswal reminded us that at an event at the Wilson Center in 2023 “this is no longer a race to the bottom” but, rather, “[America] is driving up the quality, the transparency, and the sustainability of infrastructure projects.”

Recognizing these benefits, Congress created the US International Development Finance Corporation (DFC) in 2018 to facilitate infrastructure investment in emerging markets and developing countries. To date, the DFC has committed more than \$40 billion in 112 countries, providing services ranging from debt financing and risk insurance to feasibility assessments and equity investment.<sup>1</sup> This financing generates significant benefits for the host nations and for the US. Beyond its economic, diplomatic, and security benefits, the DFC’s support for foreign infrastructure regularly returns a net profit to US taxpayers.

Despite progress, the US government alone cannot meet the substantial unmet need for infrastructure investment. Infrastructure projects are large, expensive, and require private-sector participation to complete. Unfortunately, many investment opportunities are missed because of significant regulatory barriers and because unaddressed political risks deter private capital. Reform is needed to take fuller advantage of the opportunities to promote US economic and strategic interests abroad. As Ambassador Mark Green, President and CEO of the Wilson Center, observes, “American global leadership means harnessing the might of private enterprise to help countries go from being aid recipients to development partners.”

Emboldening the DFC with greater authority and streamlined processes can help it activate more private capital. And in doing so, it can advance US economic and strategic interests.



## Investing Abroad is Investing in America

Global economic instability continues to do financial harm to governments, firms, and workers in the US and abroad. Shocks caused by COVID-19 and the invasion of Ukraine drove up prices—and drove down incomes—across international markets. In response, we need proactive efforts to stabilize markets and reduce the uncertainty deterring business between America and its partners. The DFC can help.

DFC projects provide three considerable benefits that justify strengthening the organization.

The first benefit is economic. Infrastructure provides a conduit through which future commerce flows, creating opportunities for US firms to engage with more industries in more countries. Infrastructure not only facilitates the original sale of a good, but also the maintenance, replacement, and upgrading of parts and services that make up the bulk of America's trade. Whether companies from the US and its allies or companies from competitor nations build global communications, energy, healthcare, technology, and transportation infrastructure can make the difference between whether US firms win or lose in the global marketplace.

The second benefit is diplomatic. Durable, productive investments help strengthen America's political relationships with other countries. As noted by Wahba Institute for Strategic Competition Global Fellow Prashanth Parameswaran, "partnership is the key word. One of the advantages that the US has is a huge network of partners." Strengthening these diplomatic ties must be among America's top priorities. Since these projects benefit local communities as well as the US, there are few better ways than building infrastructure to foster sustainable economic growth and social progress. It will also advance America's core principle of free, open societies.

The third benefit is a safer, more secure US. America's ability to maintain the international rules based system depends crucially on safe and efficient supply chains through access to ports, airports, and global communications networks such as undersea cables. The US needs entities such as the DFC to support commercial investments that have security implications. The result is a safer, more stable US and international system.

These three benefits highlight the key role the DFC plays and drives our recommendation for strengthening the organization to encourage deeper investment in strategic projects. As Shihoko Goto, Director of the Wilson Center's Asia Program, points out "there has never been a question about the need for infrastructure investment, especially in higher-risk, lower-income countries." Rather, the question is only is how to do it.



"Partnership is the key word. One of the advantages that the US has is a huge network of partners."

**PRASHANTH PARAMESWARAN**  
Global Fellow, Wahba Institute for Strategic Competition

"There has never been a question about the need for infrastructure investment, especially in higher-risk, lower-income countries."

**SHIHOKO GOTO** Director,  
Asia Program, Wilson Center



## What is a Strategic Infrastructure Project?

Foreign infrastructure investments are an essential part of the US's economic development efforts. Smaller economies suffer vital shortages of communications, sanitation, public health, and transportation infrastructure. Sustainable energy and climate adaptation also require significant infrastructure investment. The DFC can—and *does*—help address economic development, by investing in projects that improve the quality of life in lower-income countries. Needs can also be addressed with reforms to strengthen the multi-lateral development banks (MDBs) where the US is a key member.

Yet there are also strategic infrastructure projects that positively advance development and/or climate goals where the US has a core national interest. The US cannot leave the important work of building foreign infrastructure solely to MDBs and to other countries when US national interests are at stake.

The DFC is essential in promoting strategic investments that advance core national interests, bolstering America's economic and security. Core strategic priorities include:

- **Keeping commerce open.** Foreign ownership of airports and seaports by competitor countries raises important security concerns. Chinese companies reportedly operate in at least 100 seaports in 63 countries—a number that has doubled in just a decade—including key sites in Europe and Israel.<sup>2</sup> Ensuring that the US has a strategy, as well as the capability to ensure that key corridors of commerce throughout the world remain accessible to all must be a priority. America's goods and military resources must be able to move freely around the world.
- **Securing digital communications.** Access to affordable communications technologies cannot come at the expense of digital security. US values dictate that telecommunication services, data centers, and other technologies must empower citizens rather than enable governments to coerce or repress. It is important that the US and its allies make every effort to offer other nations competitive digital infrastructure alternatives that are trusted and secure.
- **Ensuring reliable energy supplies.** Reliable access to supplies of critical minerals and rare earth metals are crucial to the sustainability and security of the US. So too is access to the fuel sources that make the US economy run. Infrastructure investments provide an effective way to shore up essential supply chains and guarantee that the US is not over-reliant on any one country for these core building blocks of prosperity and security.

These are just a few examples of the strategic priorities in America's interests. Having access to ports, providing avenues for open communication, and shoring up energy supplies all help guarantee a free, open international system of transparent, healthy commerce, and diplomacy. The work of the DFC can help ensure these goals are met, but the agency needs core reforms to strengthen its position.









“[We] cannot emphasize enough the importance of streamlining the process...a lot of governments do not have the luxury to wait and see if deals go through.”

**EDDY ACEVEDO** Chief of Staff,  
Wilson Center

## Faster and Easier

The DFC has a unique mandate among US government agencies. It is best understood as a financial institution providing a unique, critical service that requires timely responsiveness to private sector partners for the critical element of economic diplomacy to succeed. When services are too costly, too slow, or inordinately risk-adverse, private investors will forego valuable opportunities, often forfeiting them to other competitors that have access to substantially greater access to financial and economic support. As a result, the DFC’s effectiveness directly impacts whether US and partners are successful relative to competitors. As Wilson Center Chief of Staff Eddy Acevedo notes, “[we] cannot emphasize enough the importance of streamlining the process... a lot of governments do not have the luxury to wait and see if deals go through.” Delays mean the US loses out to competitors.

Encouraging deeper investment requires changes to the DFC’s international structure and its early phases of project approval. Here are three ways to promote more efficient investment:

### ► Recommendation 1: Modify the board structure.

The DFC faces two core challenges when making decisions. The first is the need to assess risks in complex capital structures. The second is the need to price that risk appropriately. Both tasks are difficult and require financial and legal expertise to make good decisions. Therefore, we suggest restructuring the DFC’s board.

Decision-making authority should be concentrated in the hands of a smaller board of five members consisting of the CEO and the members currently set forth in the BUILD Act.<sup>3</sup> Each member must have significant experience in finance in emerging and developing countries. To ensure a degree of connectivity with policymakers, political leaders should remain involved, but the number should be limited to two and they should serve only in *ex officio* roles, without voting power.<sup>4</sup> It is worth noting that these individuals have an important role in helping ensure that US foreign policy objectives and priorities are being considered. The Export-Import Bank of the US provides a useful model. There, a smaller board of experts makes decisions and a couple of cabinet members serve in *ex officio* roles.



Additionally, we suggest adjusting the threshold required for board approval for loans, loan guaranties, and political risk insurance upward to \$150 million. All projects not going to the board would still need to be approved both by credit professionals and the senior leadership team comprised of political appointees.

A leaner, experienced board can focus more sharply on projects of high economic and strategic value. Investments offer an opportunity to export America's values and standards in ways that may strengthen the rule of law in host countries.

► **Recommendation 2: Make compensation for professionals more competitive.**

Making good investment decisions requires qualified, committed staff. The DFC has done a good job expanding its human resources by recruiting skilled professionals from finance, law, and development. However, staff turnover remains a problem as government agencies struggle to match the compensation offered by private firms. Tara Higgins, a partner at Sidley Austin LLP, cautions that the DFC struggles to lure personnel away from the comparatively large salaries offered by the private firms the DFC competes with and that "getting the best talent requires appropriate compensation."

Investing in the DFC's talent promises positive returns. We want to ensure that the organization makes good initial investments—and that the DFC has the internal stability to see those project through long into the future. Congress should pass legislation to provide the DFC with additional flexibility in setting pay scales. This flexibility would not be unprecedented. Section 4802 of the Pay Parity Act of 2002 gave the Securities and Exchange Commission leeway to compensate employees in key positions in ways that help close the gap with comparable positions in the private sector. That legislation aimed to increase the SEC's ability to attract—and to retain—top talent. A similar effort with the DFC will lead to more efficient processes. Hills Stern & Morley LLP partner Laura Hills observes that "investing in finance expertise will reduce cycle time," lowering the likelihood that US investors miss out on opportunities due to costly delays.

Offering more competitive salaries will have a substantial return on investment in the high returns profitable investments return to the US economy.



"Getting the best talent requires appropriate compensation."

**TARA HIGGINS** Partner, Sidley Austin LLP



"Investing in finance expertise will reduce cycle time."

**LAURA HILLS** Partner, Hills Stern & Morley LLP

► **Recommendation 3: Require a single environmental review.**

Not all infrastructure projects are created equal. Money spent on infrastructure generates larger rewards when projects are durable and sustainable, so that today's investments will reap rewards well into the future. Marie Lam-Frendo, participating as CEO of the Global Infrastructure Hub, observes that "governments need to do better infrastructure, not just more of it." This is what separates US projects from some competitors. America's world-leading standards, including its careful reviews of environmental impact, help ensure long-term benefits.

"Governments need to do better infrastructure, not just more of it."

**MARIE LAM-FRENDO** Former CEO, Global Infrastructure Hub



"The faster we can get the rail built, the sooner agribusiness can get its goods to market."

**DANAE PAULI** Senior Advisor, Department of State

"[Investors] should be able to share best practices to cut costs and streamline the process."

**MICHAEL KUMAR** Former Global Head of Project, Commodity, and Infrastructure Finance to Morgan Stanley



However, impact assessments can be expensive and time consuming. It is particularly burdensome to conduct multiple environmental reviews for different agencies on the same investment, which can lead to underinvestment. There are two problems. First, private capital can sometimes forego a promising investment opportunity if the startup costs are perceived to be too high. Second, even if investors wish to go through a prolonged review, delays in approval can result in forfeiting opportunities to competitors. Even if reviews are eventually successful, they can delay generating benefits. As Danae Pauli, Senior Advisor at the Department of State points out, "the faster we can get the rail built, the sooner agribusiness can get its goods to market." If the US is not building those rails, then someone else will—and those other nations may have much lower standards than the US.

Congress can help promote America's world-leading standards and ensure that US investors do not lose out to faster-moving competitors. A key is streamlining the upfront review processes. The Fiscal Responsibility Act of 2023 states that "if a proposed agency action will require action by more than one Federal agency and the lead agency has determined that it requires preparation of an environmental document, the lead and cooperating agencies shall evaluate the proposal in a single environmental document."<sup>6</sup> Such alignment

should occur with international infrastructure investment efforts. These documents can be overseen by a single US government agency and shared freely with other agencies and allied development finance institutions. As Michael Kumar, participating as Global Head of Project, Commodity, and Infrastructure Finance for Morgan Stanley points out, investors "should be able to share best practices to cut costs and streamline the process," which will result in the "next level" of efficient lending.

Clearer, more transparent communication is consistent with US principles, and it cuts down on costly, unnecessary, and potentially harmful delays in doing business abroad.

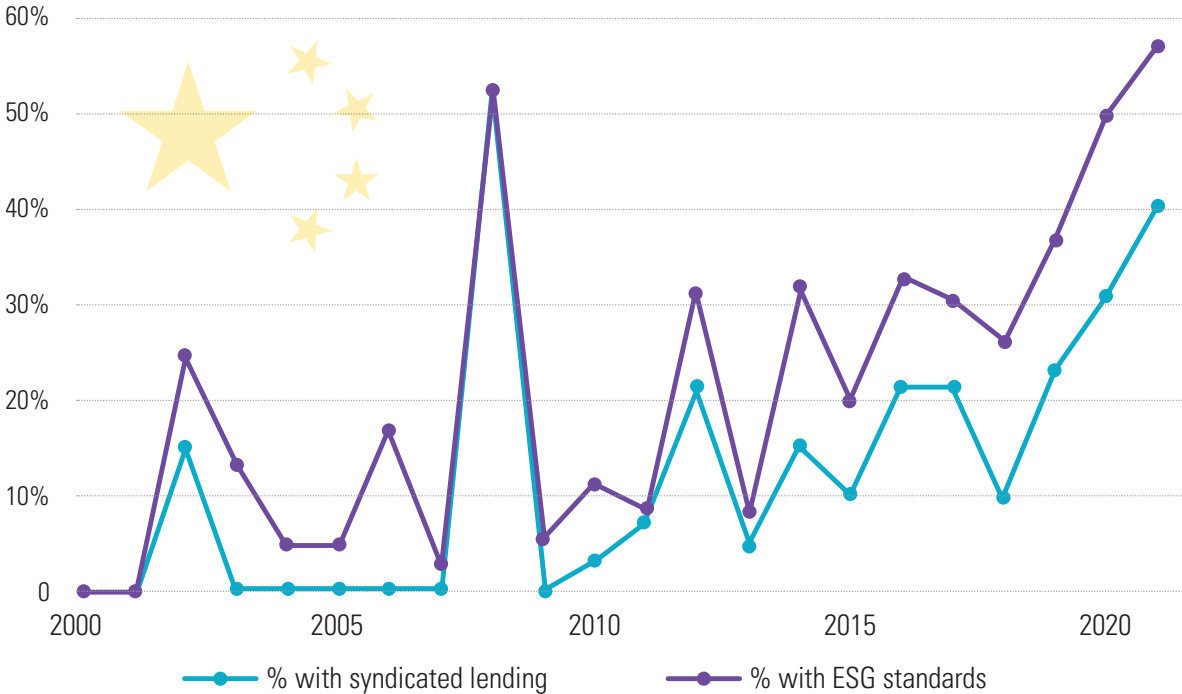
# China Acts Fast Even with Greater Embrace of ESG

China’s infrastructure lending continues to outpace that of the US. Since 2000, China has committed more than **\$1.3 trillion** to 165 emerging and developing markets—more than **twice** the US total. And despite the DFC helping close the gap, China’s current spending, at about **\$80 billion annually**, exceeds the US’s **\$60 billion**.<sup>5</sup>

Part of China’s success comes from mastering the art of public-private partnerships. Beijing took significant strides in activating private capital through its use of syndicated loan deals. Over the past decade, syndicated loans increased from less than 10% of China’s deals to more than 40%.

China has done all of this while raising standards. Ammar A. Malik of AidData notes that “China already had an advantage in speed and scale. Now it’s showing that higher standards do not compromise project completion.” Data show there is no difference in time to completion for Chinese projects with higher environmental, social, and governance (ESG) standards. In fact, China’s projects finish on average of **3 years—half the time it takes World Bank** projects.

**China’s Increasing Reliance on Syndicated Loans and Strong ESG Standards**



*Notes.* Strong standards defined by the AidData project as whether loans meet at high standards across at least two out of three dimensions of ESG. Data from Parks, B. C., et al. 2023. “Belt and Road Reboot: Beijing’s Bid to De-Risk Its Global Infrastructure Initiative.” Williamsburg, VA: AidData at William & Mary.



## Activating More Private Capital

Returns on infrastructure investments can be attractive. Yet concerns about risk deter private capital. Unstable governments, cloudy regulatory regimes, and outright corruption are all common worries when investing abroad. These risks are especially important for infrastructure projects, given the potentially long-time horizons to completion. It may be years before investors see any return.

Reforms to the DFC can help it attract more private investment while, at the same time, opening more channels through which investors can access opportunities abroad. When implemented correctly, we can significantly increase private sector participation in projects that are win-win for the US and its economic partners. Here are three ways to motivate more investment:

### ► Recommendation 4: Treat equity investments more favorably.

The DFC recognizes that its participation in equity investments “catalyzes” private sector capital by making the US government a partner in the venture and by making lending less risky. Unfortunately, federal budgeting processes limit these opportunities. Office of Management and Budget standards essentially treat equity investments like grants—a practice inconsistent with how infrastructure investments work. These investments are not like concessionary loans or foreign aid packages provided to a developing country. Rather, they are investments in building something tangible that promises positive returns. Yet there is no accounting for those returns under current rules. Money flows back to the Treasury, rather than to the DFC, giving the false appearance that these expenditures are net losers to the investor *and* to US taxpayers.

We recommend the DFC be permitted to fund a cash revolving account so returns on equity investments flow back to the DFC. Those returns may subsequently be used to fund future project equity investments and credit subsidy costs.<sup>7</sup> Congress should work with the private sector and examine the ability to create such fund.

The methods for calculating credit subsidy costs also need revision. The Government Accountability Office defines these costs as “the net present value of estimated cash flows from the government (e.g., loan disbursements and claim payments to lenders) minus estimated cash flows to the government (e.g., loan repayments, interest payments, fees, and recoveries on defaulted loans) over the life of the loan.”<sup>8</sup> However, there is a problem with calculating net present value in equity investments. Unlike grants, these investments do not have a fixed date on which a fund is dissolved and capital is returned to investors.

Better reflecting the realities of these investments requires assumptions to determine net present value. For equity investments to investment funds, the discount rate should be the average interest rate on marketable Treasury securities of a maturity, similar to the maximum life of the investment fund. For direct equity investments, the discount rate should be the average interest rate on marketable Treasury securities of a maturity similar to the equity investment, based on an estimated date of the sale or other disposal of the equity.

These relatively small changes to accounting procedures/risk provisioning will produce large, practical rewards, freeing up more money to reinvest in future projects.

► **Recommendation 5: Encourage subordinated debt.**

Given the risks sometimes associated with infrastructure projects in developing countries, it can prove challenging to raise enough money. Kimberly Heimert, Founder and CEO of the Energy Transition Advisory Group, points out how pervasive these risks are, noting that “the private sector doesn’t go into these countries because there are risks that they cannot tolerate or are unable to mitigate.” Development institutions such as the DFC have an important role to play here in reducing risks to levels tolerable to investors, especially in “greenfield” projects.<sup>9</sup> DFC involvement in a project can send an important political signal about the US government’s commitment. More practically, the way the DFC structures lending can lower risks to attract investors and lenders.

The DFC is limited in how much private capital it activates if it only provides senior debt that is first in line for repayment in the event of a default. But, as John Greenwood, head of Latin America Investment Banking for Goldman Sachs, notes “the point of blended finance is to bring in more capital at a reduced cost.” The DFC is much more likely to attract private capital to fund infrastructure if its loans are subordinated to the private loans, rather than if it insists on being senior.

While subordinated debt is, by definition, riskier than senior debt, that economic risk can be offset by proper pricing. Properly priced subordinated lending can allow the DFC to activate more private investment while continuing its track record of regularly returning money to taxpayers.

Congress should provide the DFC with greater leeway to offer subordinated debt. The BUILD Act now permits the DFC to issue subordinated debt with “a substantive policy rationale.”<sup>10</sup> It should be amended so the DFC’s board is permitted to determine circumstances in which it may issue subordinated debt. The board, then, should adopt a resolution that authorizes and encourages the issuance of subordinated debt, particularly in instances in which the DFC also holds senior debt that grants legal rights that permit it to take action if a project is not being completed or operated in a manner that will achieve the intended development.

Offering subordinated debt will help raise the capital needed to invest more widely around the world.



“The private sector doesn’t go into these countries because there are risks that they cannot tolerate or are unable to mitigate.”

**KIMBERLY HEIMERT** Founder and CEO, Energy Transition Advisory Group



“The point of blended finance is to bring in more capital at a reduced cost.”

**JOHN GREENWOOD**  
Head of Latin America Investment Banking,  
Goldman Sachs



“A great amplification effect can occur when [governments] originate loans.”

**PETER CORSELL** Partner at I Squared Capital

► **Recommendation 6: Allow private participation in DFC loans.**

Having a US government agency involved in a project helps build investor confidence. Peter Corseell, partner at I Squared Capital, notes that “a great amplification effect can occur when [governments] originate loans.” When the DFC takes the lead, it sends an important signal to the private market.

A more direct way to involve private sector investors at a lower risk to them is for the DFC to “sell down” performing loans. Projects that have reached completion and comply with the negotiated terms are attractive to private capital. The DFC should have greater freedom to sell a stake in these projects to interested investors. This would free up commitments that could be deployed to originate additional lending.

While the DFC has the authority to sell its loans, it is disincentivized because of the Federal Credit Reform Act of 1990 (FCRA),<sup>11</sup> which requires any loan to be rescored when it is sold. Because of the relatively low cost of capital for the DFC, FCRA will almost



*(thelamephotographer / Shutterstock)*



always see the sale of a project loan as a loss as the sale price for the loan participation is adjusted to reflect the private sector's higher cost of capital. Yet this loss is illusory to the extent that DFC's lending capacity is not unlimited. Given FCRA treatment, the sale would require an allocation of the DFC's appropriated credit subsidy to cover the difference. We recommend that the DFC's board request an additional credit subsidy for this purpose and that Congress should consider it.

Having greater leeway to sell down performing loans would encourage more private sector involvement while freeing up DFC capacity to support additional projects.

## Sharper Strategic Focus

Investing overseas is an important instrument in the US's broader foreign policy toolkit—one that can be used to advance US interests and bolster peace, stability, and security around the world. As noted above, strategic investments include a diversity of projects, including ensuring that foreign ports are accessible during periods of geopolitical stress, that telecommunications empowers instead of controls, and that critical mineral supply chains are resilient. US engagement also helps build local institutions that strengthen the rule of law and promote the US's ideals of free and open societies.

To achieve US strategic objectives, the DFC needs greater leeway in where it spends money around the world. We recommend the following reform:

### ► **Recommendation 7: Expand the list of nations eligible for investment.**

The DFC faces constraints on where it can lend not just because of perceived risks but because some countries are deemed ineligible because of DFC's development criteria. The bulk of the DFC's work is approved for low- and lower-middle income countries as defined by World Bank lending categories. According to the latest figures, 80 countries fit one of those two classifications.<sup>12</sup> The DFC may lend to upper middle-income countries under certain circumstances, but there are approximately 100 countries around the world ineligible for DFC project funds without special exception.<sup>13</sup>

Some of America's main competitors, including China, face no such restrictions. To the contrary, one-third of participants in China's Belt and Road Initiative are upper-middle income countries. This ability to invest in relatively wealthier nations gives competing development agencies a competitive advantage over the DFC.

The DFC's selection criteria should be amended to better align with World Bank Group standards. Specifically, any country should be eligible for DFC project lending if it is also eligible for the World Bank's International Development Association lending to the world's poorest developing nations or its International Bank for Reconstruction and Development that lends to middle-income countries. This would somewhat widen the DFC's reach and reflect the reality that there are strong strategic reasons to support infrastructure investments in these middle-income nations. DFC involvement would still need to augment private sector resources by mobilizing private capital that would otherwise not deploy without such support.

Expanding the list would help reach countries at both ends of the development spectrum. The US should not ignore opportunities where competing countries are taking advantage.

## Moving Forward

The DFC's upcoming reauthorization in October 2025 is already generating conversations about the agency's size and scope. Amid the world's ongoing political and economic turmoil, now is the time to expand US support for foreign investment. The DFC should be emboldened to make deeper commitments to foreign infrastructure projects, which have already shown themselves to be win-win. Investing strategically abroad generates benefits to host markets, it opens new opportunities for US businesses, and it helps strengthen the diplomatic ties that bring America's allies closer together in common cause. Best of all, these benefits come at no cost to US taxpayers because the projects have consistently shown a collective return on DFC's financings.

Given the benefits, the only question is: Why aren't we doing more? The US Government has a chance to increase the DFC's role in catalyzing private infrastructure investment abroad. To do so, the initial phases of investment must be faster and easier to use. Lending must be structured in ways that incentivize private participation. And we need to focus sharply on investments with strategic benefits by giving the DFC greater leeway in the countries where it operates.

The above recommendations advance these goals—and help ensure long-term peace and prosperity.



*(Travel mania / Shutterstock)*



## Endnotes

- 1 “DFC’s Global Portfolio Surpasses \$40 Billion Across More Than 100 Countries.” Development Finance Corporation Media Release, December 13, 2023.
- 2 Xie, John. “China’s Global Network of Shipping Ports Reveal Beijing’s Strategy.” Voice Of America, September 13, 2021. See also: Sly, Liv and Julia Ledur. “China has acquired a global network of strategically vital ports.” Washington Post, November 6, 2023.
- 3 See Section 1413(b)(2)(A)(iii) of the BUILD Act of 2018.
- 4 Unlike a typical corporate board, the DFC’s membership consists mainly of political leaders with other appointed roles. The members include the Secretaries of States, Treasury, and Commerce, and the Administrator of USAID, with the Secretary of State serving as chair.
- 5 Parks, B. C., Malik, A. A., Escobar, B., Zhang, S., Fedorochko, R., Solomon, K., Wang, F, Vlasto, L., Walsh, K. & Goodman, S. 2023. Belt and Road Reboot: Beijing’s Bid to De-Risk Its Global Infrastructure Initiative. Williamsburg, VA: AidData at William & Mary.
- 6 See Section 107(b) of the Fiscal Responsibility Act of 2023.
- 7 This is consistent with the DFC’s latest request in its Congressional Budget Justification for FY2024 (see page 5).
- 8 US Government Accountability Office. “Credit Reform: Current Method to Estimate Credit Subsidy Costs Is More Appropriate for Budget Estimates Than a Fair Value Approach.” Report to Subcommittee on Financial Services and General Government, January 2016.
- 9 Organization for Economic Cooperation and Development. “Infrastructure Financing Instruments and Incentives.” Report on Public and Private Pensions, 2015.
- 10 See Section 1442(b)(12) of the BUILD Act of 2018.
- 11 See Section 504 of the Federal Credit Reform Act of 1990.
- 12 Exactly 80 countries had per capita incomes under \$4,465 a year, which is the current World Bank cap on lower-middle income. Full lists are available via the World Bank Country and Lending Groups charts.
- 13 A complete list of ineligible countries, including the relevant exceptions, can be found on the DFC’s “Where We Work” list (<https://www.dfc.gov/what-we-offer/work-with-us/where-we-work>).



# Unleashing Opportunity by Unlocking Private Investment in International Infrastructure

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The Wilson Center's Wahba Institute for Strategic Competition (WISC) launched a study group comprising leaders in the financial sector who explored how to close the multi-trillion-dollar infrastructure funding gap in emerging markets and developing economies (EMDE).

There are a variety of ways Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs) can activate private capital support for EMDE infrastructure investments. The traditional focus has been on transaction-level mobilization from commercial banks and equity investors, along with balance sheet mobilization by issuing bonds. There is even greater opportunity to mobilize capital at scale from institutional investors. The study group offers the following recommendations to bolster global opportunities, strengthen the rule of law, and expand American exports to advance US national security and foreign policy objectives. Most recommendations can be enacted by MDB/DFIs without further authority. Administrative or legislative action may help enable and encourage those recommendations marked with an \*.

## Transactional-Level Mobilization from Commercial Banks and Equity Investors

- **Capital Treatment.** Instituting higher required capital levels following the 2007-08 financial crisis led to a scaling back in commercial EMDE lending. Uncertainty regarding pending increases in capital standards inhibits expanded lending. In addition to clarity and stability in regulations, clear guidance on preferable capital treatment for infrastructure lending when in tandem with DFIs and MDBs would unlock additional leading.\*
- **Longer Tenors.** Higher capital and liquidity requirements mean commercial banks have less appetite for longer-tenure lending. MDB/DFIs providing tenors that are much longer than commercial tranches, with a principal grace period during the commercial tranche period, would activate greater bank lending.
- **Streamline Reviews.** Streamlining environmental reviews to avoid the need for multiple reviews of a single project would make EMDE investments more attractive, as would expediting the approval process.
- **Offset Costs of Higher Standards.** US contractors typically have much higher standards, making their overall bids higher cost and therefore less competitive. Grant funding to offset such higher costs would enhance competitiveness of US offerings and interest in participation by US entities.\*

- Government agencies should redouble efforts to encourage procurement processes that incorporate the benefits of high standards.
- Enhance Tools for Addressing Currency Risk. Enhancing the ability to mitigate currency risks is a primary avenue to greater activation of private investment. Helping countries develop programs that offer a currency swap from the government is one option. Another is MDB/DFIs issuing greater local currency bonds to enable them to de-risk projects through increased local currency lending while also developing local capital markets. Funding and risk participation agreements from local institutions could be another route to channel local liquidity into infrastructure investments in the local currency.
- Expand and Broaden Risk Coverage. Increasing insured coverage of debt to 100% (assuming equity participates in project risk) would attract broader private participation.\* Coverage could reduce over time if certain conditions are met and lenders gain comfort in the external risk factors. First-loss tranches and credit enhancements or liquidity lines to limit risks related to the level of toll-paying traffic on a transportation project or the solvency of the entity contracting to consume energy from an energy project can activate greater private participation.\* Including products and services from allied countries in Export-Import Bank country-of-origin requirements would better position allied action.

## Mobilization from Institutional Investors

- Lender of Record Structure. Greater use of a model the International Finance Corporation (IFC), Inter American Development Bank (IDB) and other MDB/DFIs call B Loans or Bonds could better tap the institutional market. Once an MDB/DFI originates a loan, it remains the lender of record, retaining a portion (the A Loan) and selling participations in the remainder to investors. This gives comfort to investors because the borrower cannot default on them without also defaulting on an MDB/DFI. Investors also find value in having the MDB/DFI monitor and report on environmental and social impacts.
- Portfolios of Loans. MDB/DFIs bundling loans into portfolios and then selling participation in the portfolio to investors allows investors to diversify risk. Even if some assets don't perform, the larger portfolio of assets can still deliver an attractive return. It is more efficient to de-risk assets (including through concessional blended finance) at the portfolio level rather than in individual transactions. Portfolios could be tailored to target areas of investor appetite. Maintaining a pipeline of opportunities would enhance investor interest.
- Assuming Construction Period Risk. MDB/DFIs helping investors manage the construction and early operational, regulatory, environmental, and social risks of greenfield infrastructure projects would attract more investors.
- Enhance Infrastructure Asset Class. Standardizing MDB/DFI assets and adopting a common, market-based credit risk rating for MDB/DFI loans would facilitate securing them and selling them to investors.

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# Investing in Infrastructure Bolsters a More Stable, Free and Open World

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The Wilson Center’s Wahba Institute for Strategic Competition, or WISC, launched a working group to explore how America can be a catalyst for greater private investment that supports international development and climate action to ensure global stability, but also leads to a free and open environment for individuals and countries alike. This led to a focus on ensuring trusted and secure communications, free and open maritime transportation systems, and open access to critical minerals.

Even with the creation of the US International Development Finance Corporation, or DFC, the US needs to prioritize international infrastructure investment. The US provides significantly less financing for international infrastructure (adjusted for economic scale) than development finance institutions from Europe and Japan. It greatly trails the level of support provided by China. The working group offers the following recommendations to bolster global opportunities and the rule of law, while expanding American exports and influence.

## Shape a Free and Open Environment for Private Investment in Infrastructure

Emerging nations need more US support to better balance the perceived “faster or cheaper” alternative compared to US offerings with greater attention to environmental impacts, skills transfer to local workforces, transparency, financial sustainability, and product quality.

Recommendations:

- Strengthen existing tools. Build on the success of the Millennium Challenge Corporation (MCC) and empower the agency with new tools such as modifying the candidate country pool, providing gift authority for MCC so that it can leverage existing funds to get other donors to co-fund infrastructure investments, and creating a new authority for compacts with countries who are considered a foreign policy and national security priority.
- Target added investment and tax treaties. The US should explore opportunities to define where additional bilateral investment and tax treaties would be most helpful to advance national strategic priorities.

## Achieve Environmental Reviews without Advantaging Low-Standard Competitors

The added cost and time delay of completing environmental reviews puts US proposals at a disadvantage over low-standard competitors. Conducting separate environmental reviews for multiple US government agencies is particularly onerous. Recommendations to mitigate this disincentive while achieving high standards more efficiently are:



- Cover environmental review costs with grant or equity. Making the host country pay the cost of environmental reviews puts high standard offerings at a competitive disadvantage vs. nations not requiring them. Designating grant funds or equity to cover these expenses would make DFC more competitive.
- Single environmental review. Just as the Fiscal Responsibility Act of 2023 “designates a single lead federal agency to coordinate with participating federal agencies and supervise the preparation of a single environmental document,” such alignment should occur with international infrastructure investment efforts.

## Organize to Ensure Free and Open Global Commerce

To bolster the effectiveness of the DFC and allied development finance institutions to ensure trusted and secure communications, free and open maritime transportation systems, and open access to critical minerals, the working group offers these recommendations:

- Create DFC priority interests directorate. Add a new directorate, including appropriate authorities, to address national priorities. This directorate would be staffed with those aligned primarily to address security and supply chain resilience objectives.
- Serve a wider range of nations. To better address strategic competition, the US should broaden the number of nations in which the DFC can operate, modeling expanded authority off the Millennium Challenge Corporation Candidate Country Reform Act.
- Encourage greater collaboration with allied financial institutions. The DFC should better coordinate with like-minded development finance institutions and multilateral development banks.

## Calibrate Micro and Macro Risk so DFC can Activate More Private Investment

To enhance the DFC’s ability to activate private investment, the working group recommends:

- Define preapproved categories/countries. To facilitate quicker action on priority areas, streamline approvals for a predefined set of project/country combinations with certain exemptions.
- Treat equity more favorably. Create a revolving fund at the DFC for equity investments, with investment returns flowing directly back to that DFC fund. Alternatively, use a “net present value” basis for valuing equity.
- Authorize use of subordinated debt and first loss grants. The DFC must be able to prudently use subordinated debt and first loss grants to be able to activate the level of private investment required to meet global and national goals.

Embracing needed reforms can activate greater investment, not only bolstering opportunities for countries around the world and the rule of law, but also expanding American exports and increasing economic prosperity.

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# Empowering Development Finance Corporation for Greater Impact

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The Wilson Center's Wahba Institute for Strategic Competition (WISC) launched a study group comprising legal professionals with extensive development finance experience, which explored how to close the multi-trillion-dollar infrastructure funding gap in emerging markets and developing economies (EMDE). It focused on providing more authorities to the US International Development Finance Corporation (DFC), the US government's development finance institution (DFI). The study group offers the following recommendations that would empower DFC to make a greater impact.

## Ensure Continued, Effective Operations and Relationships

As a unique and essential provider of international financial services, DFC must be highly responsive to the private sector and, on a continual basis, must originate a steady pipeline of projects to effectively fulfill its mission of mobilizing private sector capital and skills to achieve economic development goals and foreign policy objectives. Unlike other DFIs, DFC must be responsive to US government policy considerations. For optimal working relationships with borrowers and investors, the DFC must continue to invest in their board and skilled staff, in particular focusing on retaining and cultivating specialized backgrounds, expertise, and skills necessary to effectively assess risks of complex and consequential transactions. It also needs the ability to avoid gaps in leadership—both career and political.

**Modify board structure.** Modify DFC's board membership to closely resemble the board of The Export-Import Bank of the US (ExIm Bank). The board should have five permanent members, consisting of the CEO and the members currently set forth in Section 1413(b)(2)(A)(iii) of the BUILD Act, and should require all voting members to have significant EMDE finance expertise. To ensure a degree of connectivity with policymakers, political leaders should serve in ex officio roles, as they do with the EXIM Bank.

**Improve the ability to recruit and retain skilled professionals.** The private sector highly compensates those with the financial and legal skills necessary to effectively process and complete transactions that mobilize private capital with an appropriate balance of risk and reward. To recruit and retain financial professionals and lawyers with the necessary skills, DFC should have authorizations similar to Section 4802 of the Pay Parity Act of 2002 with respect to the SEC, so that it may attract and retain employees with the necessary background and expertise to carry out its mission.

## Prioritize Mobilizing Private Sector Capital

Mobilizing more private sector capital in high-risk EMDE countries requires that DFC is authorized to use a full set of financing tools that will help to reduce risk to a level that is still significant, but acceptable to private lenders and equity investors. The risk-averse nature of DFC's current authorization limits the private capital it can mobilize.

Comply with Congressional intent on guarantees. Congress should clarify that, notwithstanding OMB Circular A-129, loan guaranties can be issued for up to 100% of the amount of loans, provided that other parties bear a risk of loss in the project equal to at least 20% of the amount of the loan guaranty.

Encourage subordinated debt. DFC is limited in how much private capital it activates if it only provides senior debt that is first in line for repayment in the event of a default. It also needs to offer subordinated debt, which allows senior creditors to be paid first. Provision of such debt would require high pricing, but should not require policy justification.

Allow private sector investors to participate in DFC loans. Allocate credit subsidy to encourage the sell-down of DFC's performing loans, which would enhance its ability to mobilize private capital.

Treat equity more favorably. Create a revolving fund at the DFC for equity investments, with investment returns flowing directly back to that DFC fund. Additionally, use a "net present value" basis for scoring such investments, with a discount-rate term equal to the term of the fund or the reasonable estimate of the date that such investment will be sold.

## Reduce Time from Project Submission to Project Approval

**Align board approval threshold to current scale.** Adjusting the threshold required for board approval for loans, loan guaranties, and political risk insurance to \$150 million to reflect the greater liability limits of the DFC would streamline approval for many projects. All projects not going to the board would still need to be approved both by credit professionals and the senior leadership team comprised of political appointees.

**Accept IFC environmental reviews.** The DFC should interpret the BUILD Act to require it, when requested by the borrower, to accept the International Finance Corporation's environmental reports and contractual language.

**Simplify collateral for smaller loans.** Encourage that loans and loan guaranties under \$20 million be secured only with a pledge of shares. Obtaining additional collateral on such loans is costly, even though action against such collateral is rarely exercised because the costs of obtaining and enforcing such security generally exceed any reasonable recovery.

READ THE FULL PAPER ONLINE:



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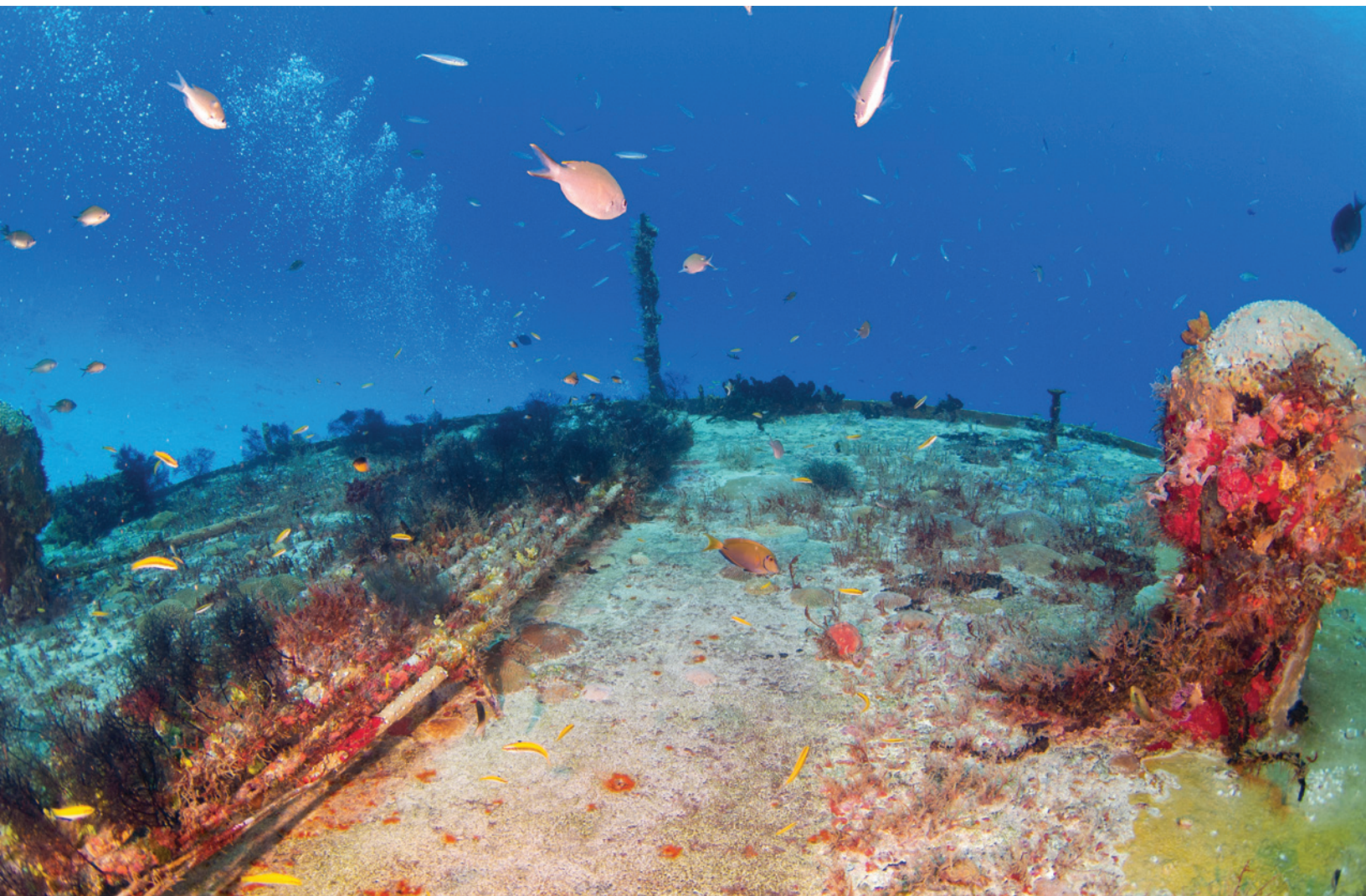
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*Submarine communications cables covered with feather hydroids, Yucatan, Mexico, 2012  
(Mayumi.K.Photography / Shutterstock)*



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## About the Wahba Institute for Strategic Competition

The Wilson Center established the Wahba Institute for Strategic Competition to shape conversations and inspire meaningful action to strengthen the technological, economic and infrastructure underpinnings required for America and its allies to deter aggression and secure the rules-based order. Key priorities include promoting infrastructure finance, trade, and a shock-free energy transition. By focusing on how to strengthen and capitalize on America's many advantages alongside allies and partners, the Wahba Institute for Strategic Competition seeks to help chart the path to peace and prosperity. The Wahba Institute for Strategic Competition's core constituencies include Members of Congress and senior staffers, the current administration, government agencies, the private sector, and academia.







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ON  
JANUARY 3, 1924

IT IS A FEARFUL THING  
TO LEAD THIS GREAT PEACEFUL  
PEOPLE INTO WAR... BUT THE RIGHT  
IS MORE PRECIOUS THAN PEACE  
AND WE SHALL FIGHT FOR THE  
THINGS WHICH WE HAVE ALWAYS  
CARRIED NEAREST OUR HEARTS: FOR  
DEMOCRACY FOR THE RIGHT OF  
THOSE WHO SUBMIT TO AUTHORITY  
TO HAVE A VOICE IN THEIR OWN  
GOVERNMENTS. FOR A UNIVERSAL  
DOMINION OF RIGHT BY SUCH A  
CONCERT OF FREE PEOPLES  
AS SHALL BRING PEACE AND SAFETY  
TO ALL NATIONS AND MAKE  
THE WORLD ITSELF AT LAST FREE.





THE ARRANGEMENTS  
OF JUSTICE DO NOT STAND UP  
THEMSELVES. WE BELONG TO THEM.  
THERE IS ONE THING THAT THE  
AMERICAN PEOPLE ALWAYS BELIEVE IN  
AND EXTEND THEIR HANDS TO  
AND THAT IS THE TRUTH  
OF JUSTICE AND OF LIBERTY AND  
OF PEACE. WE HAVE ACCEPTED  
THAT TRUTH AND WE ARE GOING  
TO BE HELD BY IT. AND IT IS GOING  
TO LEAD US, AND THROUGH US  
THE WORLD, TO A BETTER FUTURE  
OF QUIETNESS AND PEACE  
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