DFC U.S. International Development Finance Corporation

Reauthorization of the BUILD Act: Key Principles and Recommendations for Strengthening the U.S. International Development Finance Corporation

In response to the need to mobilize more private capital to help stimulate economic growth and counter the growing influence of America's adversaries in the developing world, Congress passed the "Better Utilization of Investments Leading to Development Act" (BUILD Act) in 2018, resulting in the creation of the U.S. International Development Finance Corporation (DFC). Seven years later, the DFC must be reauthorized by Congress. Although the DFC has made significant progress in expanding the portfolio of U.S. projects in the developing world, the agency's reauthorization offers a timely and necessary opportunity to improve and strengthen its capacity.

With the House and Senate acting on reauthorization legislation, MFAN encourages Congress and the Administration to act on the following general priorities:

- Provide greater flexibility in country eligibility without diluting or abandoning the focus on least developed countries.
- Enable equity investments, including the creation of a private equity investment vehicle.
- Raise the agency's risk tolerance to increase development impact.
- Strengthen the transparency of transactions.
- Increase nimbleness and speed of the agency by streamlining and eliminating new and existing positions and procedures that slow transactions, including CN thresholds.
- Extend the agency's authority to operate for an additional 6-7 years.
- Raise the maximum contingent liability ceiling to at least $200 billion.

MFAN experts have specifically noted five key areas for inclusion in the final reauthorization legislation that Congress is currently negotiating:

1. **<u>Nimbleness</u>**
   To successfully advance U.S. national interests, efficiently utilize scarce taxpayer dollars, collaborate with partner DFIs, and meet the challenge of global adversaries, the DFC must be significantly more nimble and quick-acting. Excessive bureaucracy must be minimized to those required to evaluate the viability and developmental

impact of each transaction. If businesses and potential allies conclude that, despite the DFC's unique tools, the process of partnering is simply too cumbersome, customers will go elsewhere. Unfortunately, this is already happening – and delays will get worse with proposals for the Chief Risk Officer, the Chief Development Officer, the Chief Strategic Investment Officer, and the Congressional Strategic Advisory Group, on top of the current $10 million threshold for Congressional Notifications (CN). There are already a Vice President of Development Policy and a Vice President of Foreign Policy, so the CDO and CSIO are duplicative. Congress should simplify and streamline the agency's management, fully empower the two Senate-confirmed officers to run the corporation, and raise the CN threshold to the same level as the Board's: $50 million.

2. **Equity Investments**
   Equity authority is essential for enabling businesses with limited access to capital markets to succeed and critical for partnering with allied nations. Virtually all bilateral and multilateral development banks have this authority. However, this tool has been severely limited due to scoring by budget officials. Although equity investments should be scored on a net present value basis, in the absence of this new authority, the creation of a revolving fund capitalized with $3 billion in appropriations is an important step forward. Additionally, the 30 percent ceiling on the size of DFC equity positions in individual deals should be raised to 49 percent to provide more flexibility.

3. **Country Eligibility/Development Mandate**
   The DFC's core mandate is to prioritize investment in low- and lower-middle-income countries (LICs and LMICs), where limited access to capital remains a significant barrier to growth. In these contexts, the DFC's marginal dollar can have an outsized impact by crowding in private financing and delivering meaningful development benefits. While U.S. foreign policy priorities will continue to influence investment decisions, the BUILD Act already permits flexibility for upper-middle-income country (UMIC) projects if they advance U.S. interests and benefit the poorest populations.

   Recent reauthorization proposals from Capitol Hill and the White House revisit limitations on investing in higher-income settings. Congress should proceed with caution, ensuring guardrails to avoid distracting from the DFC's core mission and displacing private investors. Such guardrails could include ensuring that private entities have the first opportunity to invest, capping DFC support at a quarter of total project costs and establishing a limit on exposure in high-income countries relative to total headroom under its maximum contingent liability. Paired with stronger transparency requirements, including more granular reporting on private capital mobilization, these measures will help Congress monitor portfolio balance and encourage catalytic investments.

4. **De-Risking**
   The DFC was created to mitigate risk for investors where private markets fall short and enable important investments that commercial banks or private sector investors would not pursue alone. One of its most basic functions is de-risking projects so private sector partners can participate. While the DFC takes this role seriously, the agency can go further by partnering with like-minded development finance institutions and expanding the use of risk-sharing tools, including concessional finance, blended finance, first loss grants, and guarantees. Congress should mandate more strategic risk-taking and protect the agency if such risk-taking results in some investment losses.

5. **Transparency and Accountability**
   For the private sector to understand how the DFC operates and where partnership opportunities exist, and to facilitate oversight and public understanding, the DFC must publish granular project-level data consistent with the BUILD Act and the Foreign Aid Accountability and Transparency Act. This should include what, where, and how it supports investments. Congress should ensure the DFC reports on: (1) development impact, both predicted and actual (as currently assessed by the Impact Quotient), (2) mobilization of private sector resources, including by type of financial instrument, and (3) interim and final monitoring and evaluation results.

To learn more about these issues, please contact The Modernizing Foreign Assistance Network (MFAN): *Tod.Preston@modernizeaid.net*

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