ENERGY FOR GROWTH HUB

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BUILDing a DFC Fit for Purpose

Eight recommendations for a robust reauthorization of America's development finance institution

BLUF: Looming reauthorization is an opportunity to reinvigorate DFC's ability to support US national goals. We suggest eight ways Congress can give the agency the resources and flexibility needed to live up to its original vision.

Before the fall of 2025, Congress will need to vote on the reauthorization of the BUILD Act, the bipartisan legislation that created the US Development Finance Corporation. (Full disclosure: The Hub was intimately involved in the original push for and design of DFC). Reauthorization provides Congress an opportunity to revisit (and fix, as needed) the agency's mandate, capabilities, and tools — and is already sparking spirited debate over its future.

Relevance. The agency is the primary tool for the United States to spur private investment in support of US development and foreign policy goals. Without an effective DFC, the US would be impotent to respond to allies' needs for energy security, job growth, or an alternative to investment from strategic competitors.

Necessary changes boil down to three big things:

- **Release the shackles.** Congress clearly intended to give DFC new tools and greater resources — but outdated rules and unnecessary bureaucracy are still standing in the way. As DFC grows and expectations mount, Congress should avoid earmarks as much as possible. Instead, it should aim to prioritize the factors that will ultimately determine the agency's success: flexibility, simplicity, and speed.
- **Keep the focus on development.** The BUILD Act was explicit that the agency's primary mandate is to facilitate "inclusive economic growth in less developed countries." As new global crises arise and US policy priorities shift, DFC is under increasing pressure from Congress and others to do more in wealthier markets — either to counter Chinese influence or address urgent security needs. While DFC's portfolio will (and should) always be shaped by US national interests, it must remain first and foremost a development agency — with an overriding focus on improving people's lives and economic outcomes in the world's poorest markets.
- **Equip DFC to tackle today's (and tomorrow's) energy challenges.** Global energy markets are changing rapidly, as are the needs in emerging economies. Reauthorization should ensure the agency has the tools and resources it needs to support the technologies of today — and tomorrow.

Our Reauthorization Wishlist

To enable DFC to live up to its potential as one of the world's preeminent development finance institutions, we propose the following eight recommendations.

Release the Shackles. Four priority actions all require Congressional action which would logically be handled together during reauthorization.

1. **Unlock more capital by raising the maximum contingent liability to $100 billion.** Expanding DFC lending capacity from $60 billion to $100 billion (as proposed by Senators Coons and Cornyn) would create space to engage in more projects at zero cost to taxpayers. A higher overall maximum would also allow the agency to invest in larger infrastructure projects, since the BUILD Act limits any single transaction to 5% of the total.
2. **Fix the accounting rules blocking DFC from using its new tools.** Congress gave DFC the ability to make equity investments, but the interpretation of budget scoring rules has treated such investments as equivalent to grants. This is far outside the norm for how peer agencies account for equity and has the practical effect of preventing the use of this instrument which is especially useful for new technologies. A sensible approach would be to use the net present value of equity investments and, to be conservative, allow the agency to retain some future profits to create a loss reserve fund. Congress can also fix similar budget-scoring disputes that prevent DFC from fully utilizing political risk insurance.
3. **Streamline approvals by altering the Congressional Notification threshold to $50 million.** DFC is currently required to notify Congress whenever it considers providing a loan or guarantee greater than $10 million. However, CSIS found that between January 2019 and March 2023, at least *two-thirds* of DFC's portfolio surpassed this threshold. This significantly slows the approval process, creates uncertainty, and risks entangling projects in partisan politics. This extra step places avoidable burdens on the agency's staff and its private sector clients. Raising the limit to $50 million would retain Congressional oversight, while smoothing approvals for the bulk of the agency's portfolio.
4. **Bolster market confidence by extending reauthorization for 10 years.** Now that DFC has been up and running for nearly five years, an extended reauthorization period would give the agency valuable time and stability to expand and reorganize its staff, figure out how to use its new authorities effectively, and build the necessary systems for success. A longer period would also send a powerful signal to the markets that the United States is committed to DFC and its goals.

***Keep the Focus on Development*.** Although no new legislation is required, Congress can use reauthorization to reinforce the original intent of the BUILD Act by pushing the agency to take steps to shift the internal incentives that are currently weakening its prioritization of development impact.

5. **Encourage high-impact projects in lower-income markets through increased transparency.** The BUILD Act directs DFC to prioritize support to low- and lower-middle-income economies. It should only invest in upper-middle-income countries under rare circumstances, when projects advance US national security or foreign policy interests and provide significant development benefits (see Figure 1). These projects should be the exception, not the rule — but Energy for Growth Hub analysis of the portfolio has found the majority of financing dollars are now going to higher-income countries. DFC will always have to balance its dual mandates of long-term development versus shorter-term foreign policy — but a lack of clear reporting around the actual makeup of its portfolio prevents Congress and the public from understanding whether (and how) that balance is being achieved. Introducing a set of simple transparency measures will help DFC clearly communicate its priorities and its impact — and incentivize the agency itself to be more deliberate about its investment decisions.

    - **Use a simple 'stoplight system' to report annually on portfolio income levels.** In its reporting to the board and in each annual report, DFC should color-code each project to illustrate the share of its investment portfolio by both financing amounts and the number of projects going to low-income (green), lower-middle-income (light green), upper-middle-income (yellow), and high-income countries (orange).
    - **Publicly disclose the agency's policy on investment in UMICs and 'safe harbor' sectors.** In order to streamline waivers for investments in non-priority countries, DFC and the State Department developed a list of 'safe harbor' sectors. These are broad categories of transactions (e.g., clean energy) that do not require special exemptions when being considered in an upper-middle-income country. DFC and State should publicly explain this process and publish the list, along with any other specific policies or considerations for investment in upper-middle-income economies.

FIGURE 1: The Build Act of 2018

(c) LESS DEVELOPED COUNTRY FOCUS.—

(1) IN GENERAL.—The Corporation shall prioritize the provision of support under title II in less developed countries with a low-income economy or a lower-middle-income economy.

(2) SUPPORT IN UPPER-MIDDLE-INCOME COUNTRIES.—The Corporation shall restrict the provision of support under title II in a less developed country with an upper-middle-income economy unless—

(A) the President certifies to the appropriate congressional committees that such support furthers the national economic or foreign policy interests of the United States; and

(B) such support is designed to produce significant developmental outcomes or provide developmental benefits to the poorest population of that country.

Equip DFC to Tackle Today's Energy Challenges**.** Congress could also set expectations for DFC to play a far greater role in global energy, a core sector vital to US development, national security, and environmental aims. Without dictating details that should be the purview of management, Congress could encourage DFC to:

6. **Proactively build a pipeline of viable energy projects.** Energy has been a top priority for DFC under both Presidents Trump and Biden. However, DFC is struggling to finance energy projects because the pipeline of investment-ready transactions is limited. To scale its energy finance, DFC will need to be far more proactive in identifying and developing early-stage investments. Congress should call for:

   ➢ **Establishing a team dedicated to early-stage support.** The agency's ongoing internal reorganization will help build sector expertise, yet Congress should also encourage DFC to create a special team to identify early-stage projects and provide technical support and assistance. This should include close collaboration with relevant parts of the USG, including USTDA, but DFC needs this internal capability as well.

   ➢ **Loosening restrictions on the use of technical assistance.** Agency officials have narrowly interpreted that the use of grants be allowed only when tied to specific commercial transactions in the pipeline. Congress can clarify that DFC technical assistance grants may be used for promising early-stage technologies and business models, even without a definitive pathway to future DFC financing.

   ➢ **Cultivating technical expertise in each of the major emerging energy technologies.** A dedicated liaison with expertise in key emerging tech (including hydrogen, battery storage, and advanced nuclear) would help private sector companies (many of which are startups who are relatively new and inexperienced in working with development finance organizations) streamline communications and navigate US rules and requirements.

7. **Clarify the agency's climate strategy.** DFC has established ambitious climate goals, but a striking lack of transparency continues to confuse both internal staff and external partners — and complicate diplomatic relationships. Congress should insist:

   ➢ **The Administration publicly disclose White House or State Department policies on carbon-intensive energy investments that affect DFC.** DFC has no publicly available policy on investing in energy solutions including gas-fired electricity or LPG cookstoves. In the information vacuum, misunderstanding is rife.

   ➢ **DFC clarify its net zero plan — and, if that cannot be done, rescind it.** In 2021, DFC announced a commitment to achieving 'net zero emissions through its investment portfolio' by 2040. Unfortunately, there is still no public plan for what this target means in practice — or how — the agency plans to achieve it. In the absence of that clarity, the commitment only creates additional confusion over whether, how, and for how long, DFC will consider investments in any projects that generate emissions — including cookstoves, transportation, electricity, or the manufacture of cement or fertilizer. A net zero commitment with nothing behind it is infinitely worse than no commitment at all.

8. **Get real on nuclear power.** In 2020, the agency lifted a legacy ban on nuclear projects, but it has yet to convince external observers that it is serious about supporting the technology. DFC has signed several non-binding letters, but market actors have indicated a lack of responsiveness from DFC. Other federal agencies have also expressed frustrations that DFC is dragging its feet despite interagency support for aggressive nuclear exports. Congress can rectify this by:

    ➢ **Ensuring internal agency financing rules are not an obstacle.** The current single project limit is $1 billion. DFC leadership can increase this to $3 billion today — or to $5 billion if the maximum contingent liability is raised to $100 billion. Some nuclear projects may require debt, equity, or insurance above the current $1 billion limit.

    ➢ **Encourage nuclear technical assistance grants.** Upfront studies are necessary for all nuclear projects because of their complexity and unique safety concerns. If DFC does not allocate sufficient funds for supporting such studies, Congress can insist on either clear reporting or, as a last resort, earmarking.

    ➢ **Requiring an annual update to Congress on nuclear activities and the project pipeline.** Simple reporting back to Congress would help to alleviate any complaints that DFC is not sufficiently supporting nuclear exports and would create positive incentives for DFC staff to be responsive.