ENERGY FOR GROWTH HUB

U.S. ENERGY SECURITY COMPACTS

A Bipartisan Blueprint to Reinvigorate U.S. Influence Through Energy Investment

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Summary

Shoring up the energy security of vital allies is now a core U.S. national security interest. Motivations include: supporting allies whose energy supply is under immediate threat; countering dependence on geostrategic competitors; bolstering economic stability; or advancing the global energy transition.

But U.S. capacity to deliver energy investment is hamstrung, making it difficult to meet high-profile commitments and threatening U.S. credibility as a reliable ally or as a provider of a viable investment alternative to geostrategic competitors. The biggest challenges are self-imposed, including the diffusion of tools across the interagency; a severe shortage of early-stage project support; too little investment in enabling infrastructure; and a lack of mechanisms to incentivize prerequisite in-country reforms.

We propose 'Energy Security Compacts.' This delivery and coordination mechanism would enable the U.S. to respond quickly, efficiently, and effectively to the specific energy security concerns facing allies. Energy Security Compacts build on the specific lessons learned from successful efforts by U.S. administrations of both parties, including the Millennium Challenge Corporation (MCC) and Power Africa, and would enhance the reach and impact of the U.S. Development Finance Corporation (DFC).

Energy Security Compacts would follow a 4-step process:

1. **Conduct a joint USG-Partner analysis** on the primary 'constraints to energy security,' modeled on MCC's constraints-to-growth analysis.
2. **Negotiate and agree to a 5-year Compact** of joint investments in key energy security solutions, drawing on MCC's compact model and mobilizing tools and resources from relevant USG agencies.
3. **Implement investments and policy reforms** by a coalition of U.S. agencies, coordinated by a small dedicated office, and overseen by an Interagency Working Group co-chaired by the National Security Council (NSC).
4. **Report results** to the NSC and Congress.

The initiative could operate under various budget scenarios. An expansive appropriated budget would support more and larger compacts, but the model is designed to be able to operate effectively in a restrictive budget environment by drawing on existing appropriations and authorities. Neither EXIM nor DFC require additional appropriations to boost lending.

We propose next steps for the U.S. Congress, the White House, and outside advocates.

A. Core Context

Shoring up the energy security of key allies is now a core U.S. national security interest.[1] The specific drivers for such support depend on the country and context. Key examples include:

- **The U.S. supports an ally whose energy infrastructure and supply are under immediate threat.** Military conflicts can threaten energy security both directly (in the country under assault) and indirectly (via price and supply effects impacting an entire region or the global market). For example, since its invasion of Ukraine in 2022, Russia has targeted the country's ability to generate power, including through attacks on substations and power plants – prompting the U.S. to support both immediate restoration and long-term energy security. It has also prompted energy security concerns throughout Europe by disrupting oil and gas markets.

- **The U.S. counters an ally's dependence on geostrategic competitors.** When U.S. allies rely on countries like Russia or China for their energy supply, U.S. national security interests face both immediate and long-term threats. Russia's state nuclear energy corporation Rosatom is currently building large nuclear reactors in major economies including Turkey, Egypt, India, and Bangladesh; has signed agreements for the supply of nuclear technology with at least 40 countries; and has agreed to provide training and technical assistance to at least another 14.[2] Rosatom is competitive in large part because it provides a 'cradle-to-grave' nuclear supply chain including financing, construction, fuel, operations, waste disposal, and decommissioning. Such projects bind a country to Russia for the 60-100 year life of a nuclear facility and provide Russia immense leverage. Targeted U.S. support, investment, and commercial diplomacy can provide an alternative to head off this dependence. Both parties have tried to address this challenge: the Trump Administration led establishment of the U.S. Development Finance Corporation (DFC) as a mechanism to counter China, and the Biden administration led creation of the Partnership for Global Infrastructure and Investment (PGI).[3]

- **The U.S. invests in a country's energy system to bolster global economic stability.** Across much of the world, energy represents a primary binding constraint to economic growth. Of the 30 constraints analyses conducted by the Millennium Challenge Corporation (MCC) since its creation in 2004, roughly half identified energy as a country's top economic constraint.[4] As emerging economies grow, their economic stability has expanding influence over global economic performance and security. In the coming decades, they will require vast increases in reliable energy in order to grow their manufacturing and service industries and employ rapidly growing populations. U.S. investment can provide the foundation for market-driven growth and enduring diplomatic relationships.

- **The U.S. advances the global energy transition.** The future trajectory of global carbon emissions will increasingly depend on the energy investments and decisions made by emerging and developing economies, projected to account for the bulk of emissions growth in the next two decades.[5] Partnerships with key economies to build secure energy systems, diversify resources, and build markets for emerging technologies represent a crucial opportunity for the U.S. to reduce climate risks to itself and its allies while expanding global markets for U.S. innovation.

By definition, such investment packages must be highly tailored to both the interests of the U.S. and the specific energy needs and priorities of its partner country – and address a variety of constraints

[1] Examples of ongoing U.S. efforts include a Memorandum of Understanding between Ukraine and the U.S. regarding Collaboration on Ukrainian Energy System Resilience; and U.S. support for the Just Energy Transition Partnership in Indonesia.
[2] Jacob Kincer, "The Russian invasion is an opening for US nuclear technology", May 2022.
[3] White House, Memorandum on the Partnership for Global Infrastructure and Investment, June 2022.
[4] Millennium Challenge Corporation, "Constraints Analysis".
[5] International Energy Agency, "Financing Clean Energy Transitions in Emerging and Developing Economies", *World Energy Investment 2021 Special Report*, 2021.

across the energy value chain. This wider objective and targeted, country-specific approach differentiates this effort from existing U.S. energy initiatives like Power Africa, which distribute assistance across many countries and are heavily focused on individual transactions – not the strengthening of a particular priority energy market.

B. The Problem

U.S. capacity to deliver such investment is hamstrung by the lack of a dedicated structure for designing and coordinating such assistance – and by gaps in its existing set of tools. This has made it challenging for the U.S. to deliver efficiently and effectively on its high-profile energy investment commitments, including PGI. The most salient obstacles include:

1. **Diffusion of tools across the interagency limits effectiveness.** The U.S. has powerful ways to support energy security, but they are spread across at least nine different agencies. (See Section F for a summary of relevant tools). Exercising them in an efficient and effective way without a dedicated structure for coordination is a chronic challenge because: [1] each implementing agency has its own mandate, authorities, and strategic priorities; [2] few incentives exist for collaboration; and [3] fragmentation complicates engagement with public and private partners.

Table 1. Valuable energy security support tools exist across the U.S. interagency

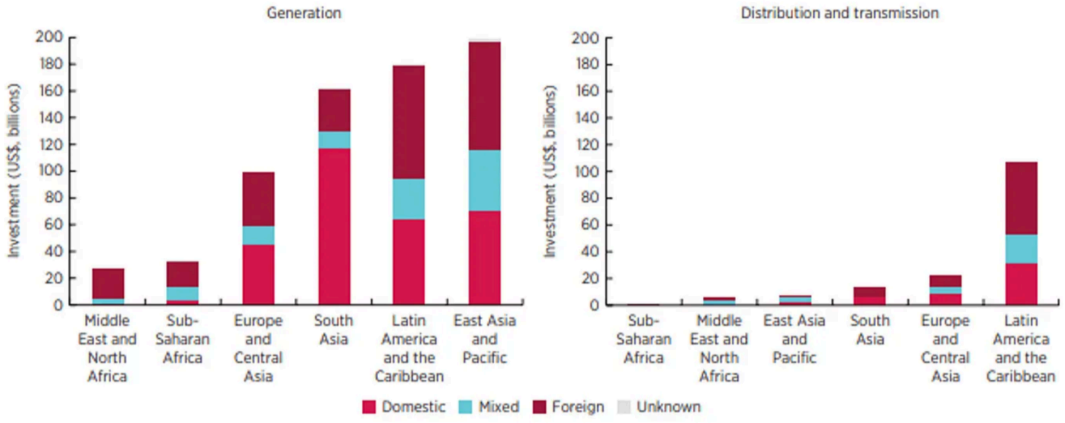
	Commerce	DFC	DOE	EXIM	MCC	State	Treasury	USAID	USTDA
Energy Sector Planning & Analysis			✓		✓			✓	
Policy Reform & Institutional Strengthening			✓		✓	✓	✓	✓	✓
Public Infrastructure					✓			✓	
Business Development for Private Sector	✓					✓		✓	✓
Early-Stage Project Support		✓			✓			✓	✓
Late-Stage Project Support		✓		✓				✓	

2. **In many countries, catalyzing private capital will require far more early-stage project investment.** Strong U.S. tools exist to provide finance, risk mitigation, and other direct support to privately-sponsored projects at advanced stages of development. The U.S. is well positioned to push individual transactions once they are bankable and ready to receive external finance. But in many emerging and lower-income markets, there is no robust pipeline of mature, high-quality energy projects – leaving the U.S. with few viable options for investment. This is already hindering the DFC, which was created in 2020 specifically to support infrastructure investment. In both FY2021 and FY2022, DFC was able to approve only a small handful of utility-scale energy projects.[6] In response to the shortage of proposed projects, the G20 has made early-stage project preparation a key pillar of its 'roadmap' to developing global infrastructure.[7]

[6] Katie Auth, Jacob Kincer and Todd Moss, "Where is the DFC's Clean Energy Pipeline in Africa?", Energy for Growth Hub, October 10, 2022.
[7] "Roadmap to Infrastructure as an Asset Class".

3. **The U.S. has few tools and resources to support crucial enabling infrastructure or public institutions.** The most challenging bottleneck to modernizing and strengthening a power sector is often not the generation sector (which can easily attract private investment under the right conditions), but the critical infrastructure that allows the system to function and enables the private sector to come in in the first place. Specifically, this includes utilities (which purchase power from generators and sell to end-users) and grid networks (without which countries cannot generate electricity at large scales, integrate increased shares of renewable energy, or deliver power effectively to consumers). In most emerging markets, utilities and grid systems are *public* infrastructure, wholly or partially state-owned. However, most U.S. energy finance tools (and those of other major international funders) are designed to support only private sector-led investments. As a result, their effectiveness is largely limited to generation, where private participation is more widespread. In contrast to generation, transmission and distribution have attracted far lower amounts of capital (Figure 1). MCC is currently the *only* U.S. agency equipped to provide significant support to public infrastructure.[8]

Figure 1. Globally, grid infrastructure receives far less investment than generation.



Source: USAID/Power Africa, "The Missing Link: Understanding Power Transmission Financing", *Medium*, November 15, 2021.

4. **In most cases, the U.S. lacks significant leverage to incentivize the in-country reforms necessary to attract investment and ensure long-term gains.** Ultimately, energy security in any particular country depends heavily on the decisions made by that country's government. In many countries, governments need to make tough decisions and advance key reforms before the U.S. can successfully crowd in private capital. Significant U.S. resources should not be devoted to strengthening a given energy system absent commitment and follow-through from its partners. Many U.S. agencies (primarily USAID) provide technical assistance to strengthen policy and regulatory frameworks. But in most cases (with the exception of MCC) the USG has few concrete mechanisms to incentivize partners to advance these reforms or to make U.S. funding contingent.

[8] USAID can provide technical assistance to strengthen public utilities and advise on improving grid systems, but is unable to provide funding.

C. The Proposal: Energy Security Compacts

In this section, we put forward options to build a delivery and coordination mechanism that enables the U.S. to respond quickly, efficiently, and effectively to the specific energy security concerns facing key allies.

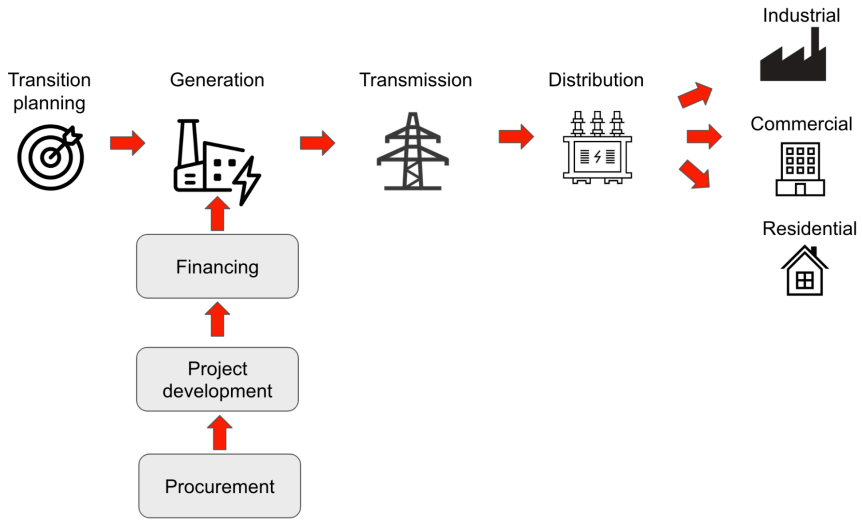
Core attributes of success:

- **Flexibility and adaptability to respond to diverse energy security needs.** Key constraints to energy security and resulting priorities will vary widely by country, and according to what the U.S. and its partner are jointly trying to achieve. Energy Security Compacts should be a delivery mechanism to define goals and achieve results – *not* a presumption of what those goals and results should be. The structure must be flexible enough to be tailored efficiently and relatively quickly to a variety of energy security concerns and needs.

- **Efficiency as a priority.** This initiative should make U.S. support for global energy security more efficient in two ways: First, by harnessing tools and resources from across the USG and coordinating their use for maximum effectiveness. And second, by focusing U.S. resources on a targeted set of strategic markets where energy security is a key U.S. interest, thereby avoiding the geographic dilution of funding and attention.

- **Systemic approach – not a set of disparate transactions.** This has three major components: [1] strengthening U.S. capacity to support the critical infrastructure that makes energy delivery possible; [2] building a pipeline of high-quality projects ready that can absorb U.S. and private sector capital; and [3] holding partners accountable for key policy reforms. Energy Security Compacts must consider both the vertical pipeline and the horizontal power system (Figure 2). In contrast to a narrow focus on financing generation assets, this initiative must target earlier stage project preparation for generation while also considering (and addressing, where appropriate) other key aspects including system planning; grid networks; and the development of robust customer bases and markets to support long-term investment.

Figure 2. Addressing both vertical and horizontal gaps in U.S. energy support



- **Scalable and replicable.** Current U.S. efforts to design targeted, country-specific energy investment packages (for example, in Ukraine or South Africa) are ad hoc. While this may be workable in specific, limited instances, such an approach makes it impossible to efficiently replicate the effort when a new need arises – and increases the risk of unnecessary duplication of effort.

- **Sustainable over time with bipartisan backing.** Energy sector investment occurs over a relatively long time frame. A single power plant takes several years to develop – and institutional reform and regulatory design can take much longer, necessitating shared commitment by both the U.S. and its partner government. In addition, in order to take risks, private sector partners must have sufficient confidence in market reforms and U.S. partnership. This initiative will only succeed if it ensures continued support over a specific time frame and secures sufficient bipartisan backing to endure beyond any particular White House administration.

D. The How: Options for Institutional Structure

Energy Security Compacts build on and reflect key lessons learned from previous efforts by administrations of both parties. In particular, it draws on initiatives launched by President George W. Bush (the Millennium Challenge Corporation) and President Obama (Power Africa and Partnership for Growth).

Energy Security Compacts would follow a 4-step process:

1. **Conduct a joint USG-Partner analysis on the 'constraints to energy security**,' identifying the most serious impediments to energy security in that particular country, modeled on MCC's constraints-to-growth analysis. This analysis provides a clear prioritization for Compact development.
2. **Negotiate and agree to a 5-year Compact of specific energy-security investments and sequenced policy commitments**, based on the constraints analysis and an initial project proposal put forward by the partner country. The Energy Security Compact defines responsibilities and includes clear objectives and measurable targets.
3. **Implement investments and policy reforms** contained in the Compact, coordinated by a small dedicated office and managed by an Interagency Working Group, as per Power Africa.
4. **Report results** to the NSC and Congress

Key features:

- **Energy Security Compacts would be implemented jointly by a coalition of U.S. agencies and departments.** At least nine agencies would be involved in the design and implementation of an Energy Security Compact. This includes Commerce, DFC, DOE, EXIM, MCC, State, Treasury, USAID, and USTDA – all of which have existing tools and resources to support this initiative, and would benefit from a simple organizational structure enabling them to coordinate deployment and complement each other's work. (This contrasts with traditional MCC Compacts, which include assistance solely from MCC).

- **Investments would be coordinated by a small Energy Security Compacts Coordinator's Office (ESC/CO).** The initiative must provide an efficient mechanism to deploy U.S. resources and tools in tandem. The ESC/CO would have a mandate to oversee Compact design and delivery, and support other agencies in doing their relevant work more quickly, effectively, and with maximum flexibility.

- **Effectiveness of the ESC/CO would depend on:**

  - ***Seconded staff.*** The ESC/CO should be staffed primarily via interagency secondees, to ensure deep familiarity with relevant tools and ensure communication and collaboration.
  - ***Flexible funding.*** The ESC/CO must have a small pool of dedicated funding it can transfer across the interagency to support the most effective programs and enable responsiveness. This model proved successful in Power Africa, where the Coordinator's Office could transfer funds across the interagency in order to problem solve and direct resources into high-impact tools. This should include funds to support early-stage project preparation, particularly those with a high likelihood of being financed at scale by DFC or EXIM.

- **The ESC/CO would co-chair an Interagency Working Group with the National Security Council.** The interagency working group would include representatives of each of the participating U.S. agencies, and meet bi-monthly to coordinate implementation. Co-chairmanship by the Coordinator and a representative of the NSC ensures visible White House backing that helps drive action, responsiveness, and interagency cooperation.

Institutional Options:

- **Option 1: House the ESC/CO at MCC**
  - Summary: A dedicated Coordinator's Office inside MCC would lead design, implementation, and monitoring of ESCs; manage the interagency task force; and lead monitoring and reporting.
  - Advantages:
    - MCC's existing model closely adheres to the objectives of ESC.
    - The agency has longstanding experience crafting 5-year Compacts, including many focused on energy and several focused specifically on energy security.
    - MCC is unique among U.S. agencies in having the capacity and toolset to provide large-scale grant fund funding crucial for public energy infrastructure and institutional strengthening.
    - MCC's funding model provides multi-year Compact support.
    - MCC and DFC have an existing model for enhanced collaboration via the American Catalyst Facility for Development.
  - This would require:
    - Congress to amend MCC's authorities to create a 4th business line at the agency tied directly to Energy Security Compacts. (For more details, see section G). Expanded authorities to work with a wider range of eligible economies.
- **Option 2: House the ESC/CO at USAID**
  - Summary: A dedicated Coordinator's Office inside USAID would lead design, implementation, and monitoring of ESCs (with support from MCC); manage the interagency task force; and lead monitoring and reporting.
  - Advantages:
    - USAID has a proven track record of coordinating interagency energy assistance under a similar structure through the Power Africa initiative.
    - USAID is unique among US agencies in having an energy sector-wide focus that includes all aspects of ESC implementation, including policy, institutional support, and investment.
  - This would require:
    - Close collaboration with MCC on analysis and Compact design.

E. Timeline of Compact Development and Implementation

An Energy Security Compact would be implemented over a nine-year time period, including five years dedicated to implementation. The sequenced set of steps include:

Year 0	**Country identification and rationale.** Rationale for country selection will vary and could include security, commercial, geopolitical, and development priorities. Priority should be given to countries whose energy security represents a core U.S. interest, and where the government is committed to dedicating significant financial resources and high-level attention to the effort.	**U.S. Leads:** NSC and ESC/CO, in dialogue with the interagency working group
	Joint energy sector analysis. The USG and its partner jointly undergo a process of assessing the country's energy security, with specific focus on defining key risks, opportunities, and shared interests. The analytic methodology can be adapted from MCC's 'root causes analysis' methodology for the energy sector.	**U.S. Leads:** ESC/CO and MCC secondee, with input from the interagency working group
Year 1	**Compact development.** The USG and its partner work together to design a 5-year Compact identifying and sequencing priority investments and necessary reforms. The Compact identifies a short, clear list of goals and clearly measurable outcomes; commits the partner country to upfront reforms and investments; commits the U.S. to providing key services; and puts in place mutual accountability mechanisms to drive key reforms.	**U.S. Leads:** ESC/CO and MCC secondee, with input from the interagency working group and support from the NSC
Years 2-7	**Implementation.** The USG implements a series of sequenced investments and activities, while the partner government undertakes its own commitments. U.S. funding is provided in tranches tied to specific achievements to ensure accountability.	**U.S. Leads:** All relevant US agencies, supported by the ESC/CO
Years 8-9	**Monitoring.** The USG monitors and reports on achievements and results.	**U.S. Lead:** ESC/CO in concert with GAO or MCC's M&E team

F. Leveraging Existing U.S. Services & Tools

Energy Security Compacts will harness and coordinate existing tools from across the U.S. government. The scope and focus of a particular Compact will determine which tools are most relevant. Potential tools include:

Constraints Analysis Objective: Assess specific energy sector challenges, needs, and investment priorities.		
Tool	**Description**	**Implementing US Agency**
Root Cause Analysis	Targeted research and analysis to identify and select specific issues to be addressed through investment and other support.	MCC
Decarbonization Pathways	Technical, market, and investment strategies to decarbonize energy systems.	DOE
Policy Reform & Institutional Strengthening Objective: Strengthen energy markets to attract investment		
Tool	**Description**	**Implementing US Agency**
Grant-based Compacts	5-year bilateral grant-based partnerships to help individual countries address primary obstacles to economic development	MCC
Grant-based concurrent compacts for regional investments	Compacts to support cross-border integration and collaboration (for example: cross-border transmission or road infrastructure)	MCC
Grant-based Threshold Programs	Smaller time-limited programs, focused on policy and institutional reform	MCC
Technical assistance	Support for energy issues including procurement, planning, regulation.	USAID
Technical assistance	Support development of strong financial sectors, sound public financial management, and market-based financial policies across 5 core disciplines including government debt and infrastructure finance.	Treasury
Technical assistance	Provides trainings related to clean energy technology; helps African governments conduct energy-sector planning and assess technical energy challenges	DOE
Early-Stage Project Support Objective: Build a pipeline of bankable energy investments		
Tool	**Description**	**Implementing US Agency**
Grant funding for project preparation	Grant support for feasibility studies, pilot projects	USTDA
Feasibility studies and technical assistance	Flexible funding to accelerate project identification and preparation to better attract and support private investment	DFC
US Commercial Advocacy Objective: Help US companies compete for energy projects on a level playing field		
Tool	**Description**	**Implementing US Agency**
Advocacy Center	Helps US businesses win foreign government procurements (including by arranging meetings with key decision makers, and providing support from USG officials).	Commerce
Gold Key Service	For a fee, helps US companies build relationships with potential partners in foreign markets.	Commerce

Trade Missions	Facilitate meetings, briefings and site visits for US businesses traveling to foreign markets.	Commerce
Reverse trade missions	Connect overseas project sponsors with potential US partners	USTDA
Later-Stage Project Support Objective: Directly support specific energy deals with financial tools		
Tool	**Description**	**Implementing US Agency**
Export Credit Insurance	Protects against commercial and political nonpayment risk	EXIM
Loan Guarantees	Guarantee working capital	EXIM
Direct Loans	Provide fixed rate financing (generally for up to 12 years; up to 18 years for renewable energy projects) to creditworthy international buyers.	EXIM
Project Finance	Limited recourse or structured finance	EXIM
Equity Investments	Direct equity investments to companies creating developmental impact	DFC
Debt financing	Direct loans and guarantees up to $1 billion for tenors as long as 25 years	DFC
Political risk insurance	Coverage up to $1 billion against losses resulting from currency inconvertibility, government interference, or political violence.	DFC
Loan guarantees	Guarantees for sovereign lending or project finance.	State, potentially DOD

G. Additional authorities that would strengthen Energy Security Compacts

While expansive budgets appear unlikely in the near term, some modest additional tools and authorities would bolster the U.S. ability to support energy investment at a far larger scale. The following authorities would further boost Energy Security Compacts and could be included in future supporting legislation:

- **A new global energy security mandate at MCC.** The MCC could play a more direct role in managing the constraints analysis and compact negotiation by opening an Office of Energy Security Compacts to create an in-house dedicated team of experts. MCC could also support high-impact complementary public investments such as transmission infrastructure, which would enable other private-sector-led investments to succeed. To do so, Congress would need to amend MCC's authorities and appropriate funds for a new MCC business line outside their traditional selection process tied directly to Energy Security Compacts.
- **A reformed and expanded sovereign loan guarantee (SLG) program at the State Department.** The existing SLG program has been used in limited circumstances but could be expanded to add additional investment at low taxpayer risk, per a proposal from the Center for Global Development.[9]
- **Defense Department authorizations could be utilized for certain energy- and supply chain-related investments.** Where energy security compacts have direct impacts on U.S. defense supply chains, Congress could consider extending DOD loan and loan guarantee authorities under the Defense Production Act to specific investments in allied nations.[10]
- **The Department of Energy's Loan Programs Office (LPO) authorities could be expanded** to include waivers for critical overseas investments contained in Energy Security Compacts.

[9] Scott Morris, Rowan Rockafellow, and Daleep Singh, Reimagining the US Sovereign Loan Guarantee Program: A Cost-Effective Strategy for Supporting Developing Country Partners, Center for Global Development, June 2023.
[10] The Defense Production Act of 1950: History, Authorities, and Considerations for Congress, Congressional Research Service, October 2023.

H. Illustrative Types of Energy Security Compacts

The driving U.S. interest in supporting energy security varies by country. The following list provides examples of potential types of Energy Security Compacts the U.S. might implement, along with illustrative examples of countries that fit each category.

1. **Rapid Response Security Compact** *(Illustrative Partner: Ukraine)*

Priority U.S. Interest	**Secure Ukraine's physical and economic energy security** ● Secure vulnerable critical energy infrastructure ● Protect and restore critical energy services ● Build a foundation for long-term rebuild and restoration.
Primary U.S. Tools	**Analytics and financial support** ● Critical infrastructure assessment (DOE) ● Grants to support immediate repair and recovery (MCC, USAID) ● Investment in new infrastructure (DFC, EXIM)

2. **Geopolitical & Economic Security Compact** *(Illustrative Country: Philippines)*

Priority U.S. Interest	**Help the Philippines build a power system to drive sustained growth and lessen reliance on China.** ● Improve power reliability, particularly for industry and business ● Reduce power costs ● Accelerate private investment
Primary U.S. Tools	**Financing and technology** ● Grants to strengthen and modernize the grid (MCC) ● Technical assistance and funding for early-stage project prep (USTDA, USAID, DFC) ● Investment in new infrastructure (DFC, EXIM)

3. **Global Supply Chain Compact** *(Illustrative Country: Zambia)*

Priority U.S. Interest	**Strengthen the country's energy system in tandem with its capacity to process minerals to diversify global supply chains.** ● Ensure sufficient energy for mining and processing operations ● Using mining facilities as anchor customers, enabling investments and improvements in the broader energy sector ● Strengthen U.S. diplomatic ties by committing to strengthen the country's domestic energy sector alongside its capacity for minerals export
Primary U.S. Tools	**Analytics and financial support** ● Grants to strengthen the grid and other enabling infrastructure (MCC) ● Technical assistance to strengthen mining operations and standards (USAID,

	State) ● Funding for early-stage project prep (USTDA, USAID, DFC) ● Investment in new infrastructure (DFC, EXIM)

4. **Energy Transition Compact** *(Illustrative Country: Senegal)*

Priority U.S. Interest	**Encourage clean energy technology** ● Support sound long-term energy planning that leverages Senegal's resources, enables high renewables penetration, and leverages grid and off-grid solutions ● Utilize US-led gas investments for domestic power generation ● Provide low-cost reliable power to support job growth in agriculture, manufacturing, and the digital economy
Primary U.S. Tools	**Analytics and financial support** ● Grants to strengthen the grid and other enabling infrastructure (MCC) ● Funding for early-stage project prep (USTDA, USAID, DFC) ● Investment in new infrastructure (DFC)

I. Illustrative budget under different scenarios

The initiative could operate under various future budget scenarios. An expansive budget would be able to support more and larger compacts, but the model is specifically designed to be able to operate effectively under a restrictive budget environment, including continuing resolutions, by drawing on existing appropriations and authorities. The bulk of the large-scale investment financing would come from EXIM and DFC, which do not require additional appropriations to boost lending. Extending modest additional authorities for existing appropriations at MCC, DOD, and DOE could further provide new resources and higher impact Compacts. The Coordinator's Office would require operational expenses of approximately $10 million plus flexible funding of $20-100 million that would have to be appropriated or reallocated from existing programs.

Illustrative Budget: Coordinator's Office (Annual)

	Agency	Indicative commitment	Appropriation needed?
Coordinator's office	USAID	$10m	Yes
Interagency staff	State, AID, DFC, MCC, NSC	$20m	Draw from existing staff via secondments
Flexible funding to allocate across projects	USAID	$20-100m	Yes

Illustrative Budget for an Energy Security Compact in a Major Economy

	Agency	Indicative commitment	Appropriation needed?
Loans	EXIM	Up to $5 bn	None
Loans & equity	DFC	Up to $2 bn	None
Grants	MCC	$500m	Existing MCC budget
	DFC	$50m	Existing DFC program budget
	USTDA	$5m	Existing budget
Guarantees	DFC, Treasury, State, DOD (DPA)	TBD	TBD
TA support	Treasury	$5m	Existing OTA budget
	State	$5m	Existing ENR budget
	DOE	$5m	Existing budget
	USAID	$100m	Existing budget

Illustrative Budget for an Energy Security Compact in a Smaller Economy

	Agency	Indicative commitment	Appropriation needed?
Loans	EXIM	Up to $2 bn	None
Loans & equity	DFC	Up to $1 bn	None
Grants	MCC	$300m	Existing MCC budget
	DFC	$20m	Existing DFC program budget
	USTDA	$5m	Existing budget
TA support	Treasury	$5m	Existing OTA budget
	State	$5m	Existing ENR budget
	USAID	$50m	Existing budget, possibly with plus-up

J. Next Steps

<u>The U.S. Congress</u> can lead by advancing legislation to codify the initiative and by strengthening DFC's capacity to contribute. Key recommended actions include:

1. **Enact supporting bi-partisan legislation.** Advancing legislation that codifies the initiative's mandate and objectives will enable it to last beyond any single Presidential administration, giving international partners confidence in U.S. commitment and ensuring that the goals of any specific ESC can actually be achieved. Supporting legislation also can establish goals, authorize creation of the CO, authorize appropriations, direct the administration to create the Interagency WG, and request results reporting.

2. **Amend MCC's authorities to include Energy Security Compacts.** Congress should amend MCC's authorities to create a 4th business line at the agency tied directly to Energy Security Compacts, and expand its authorities to work with a wider range of eligible economies. (Currently, MCC is restricted to working with countries classified by the World Bank as low-income or lower-middle-income).

3. **Strengthen DFC's capacity to support early-stage project preparation and deploy capital through reauthorization.** DFC authorization expires in September 2025, presenting the U.S. with an opportunity to enhance the agency's reach and impact – particularly in regards to energy security. Key recommendations for reauthorization include:
    - ***Create an Upstream Project Development Team:*** Dedicate staff to early-stage energy project development – including deployment of DFC's technical assistance funds to support key activities like feasibility studies, and coordination with relevant agencies including USTDA.
    - ***Address the equity scoring challenge:*** Congress should either support the $2 billion revolving fund put forward in the President's 2024 budget proposal, allowing returns from equity investments to be reinvested without appropriation to increase agency flexibility – or it should ensure that DFC equity investments are scored on the basis of 'net present value'.
    - ***Enable more and larger investments.*** At no additional taxpayer cost, Congress can raise DFC's liability limit to $100 billion which would allow DFC management to increase the individual project limit to $5 billion. This will be especially necessary if the DFC is expected to finance nuclear power projects.

<u>The next Administration</u> can lead by establishing the initiative as a key foreign policy priority and creating its structure. Key recommended actions include:

1. **Make Energy Security Compacts a component of the Presidential campaign platform.** Signal a commitment to global energy security and U.S. government efficiency by making this initiative a core piece of pre-election planning.

2. **Identify dedicated NSC leadership.** Establishing the initiative will require focused attention from the NSC, at least at the outset. Leadership should be assigned to an NSC staffer with sufficient seniority to convey White House positions and drive interagency action and decision making.

<u>Outside proponents</u> must play a crucial role in building support for the initiative and helping design its core components. External non-government groups – including both U.S. and international think tanks and advocacy organizations concerned with U.S. national security, U.S. technology and business competitiveness, clean energy deployment, and global development – have a large role to play in shaping the

initiative itself, and in helping identify solutions to challenges that will arise with implementation. Key recommended actions include:

1. **Build a coalition of partner organizations that can generate ideas, build bipartisan support, and be a watchdog.** This should comprise a diverse set of public and private stakeholders committed to global energy security and effective U.S. engagement.