



# Empowering Development Finance Corporation for Greater Impact

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 guarantees 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.

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