Wilson Center | Wahba Institute for Strategic Competition

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

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.

To learn more, contact Mark Kennedy Mark.Kennedy@wilsoncenter.org or visit the Wahba Institute for Strategic Competition at www.wilsoncenter.org/WISC

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