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## Responding to the Foreign Aid Overhaul

### **The Future of U.S. Foreign Assistance: Unlocking Investment or Creating Barriers?**

The Trump administration's proposed restructuring of U.S. foreign assistance is ambitious — and for good reason. For years, the U.S. aid system has been tangled in bureaucracy. Agencies often worked at cross purposes, frustrating businesses seeking to partner with the U.S. government. The plan to consolidate the Millennium Challenge Corporation (MCC), the U.S. International Development Finance Corporation (DFC), and the U.S. Trade and Development Agency (USTDA) could change that. It's a chance to simplify a complex system and make it easier for the private sector to engage.

If done right, this reform could unlock more investment. It could create jobs both in developing markets and here at home. It could better align U.S. development finance tools with national interests. But if mismanaged, it could weaken one of America's strongest tools for advancing global stability — partnerships with the private sector.

#### **Where the Plan Shows Promise**

The plan's focus on cutting red tape is encouraging. For too long, businesses have struggled to find the right entry point to work with the U.S. government. Merging MCC, DFC, and USTDA into one economic cooperation pillar should reduce duplication and make it easier for businesses to know where to go. For those who've been stuck navigating a maze of agencies, this is a welcome shift.

The decision to place oversight under the Secretary of State also has sound logic behind it. Reformers argue that fragmented oversight has led to inefficiencies and misaligned priorities. Centralized leadership is meant to improve coordination and ensure that development spending better supports U.S. strategic interests.

The move toward performance-based financing is another positive step. Businesses think in outcomes, not activity completion. Tying funding to measurable results can make the U.S. a more appealing partner for businesses seeking to invest in development.

Expanding DFC's authority over financing tools like equity investments and loan guarantees is another smart move. These tools are crucial in markets where investors need extra assurance before committing capital. Given China's growing influence through its Belt and Road Initiative, strengthening these financial tools positions the U.S. to compete more effectively in emerging markets.

## Where the Plan Risks Falling Short

Despite these positive steps, the plan carries risks. Centralizing decision-making in Washington may make coordination easier on paper, but it could slow things down on the ground. In investment, timing is often critical. If regional teams lack the authority to approve deals quickly, opportunities could be lost.

Another concern is the potential loss of expertise. USAID's sector-specific teams — from agriculture to finance — have played an important role in helping U.S. businesses navigate complex markets. The restructuring plan aims to consolidate some technical roles within DFC. But unless those experts remain accessible, businesses may struggle to manage risks and investments in challenging environments.

The shift away from traditional grant-heavy models also introduces risk. While performance-based funding has clear benefits, flexible financing tools have played a vital role in attracting private sector investment. Blended finance models, which combine public and private capital to reduce investor risk, have been especially important in higher-risk markets. Without those tools, the U.S. could struggle to promote investment in fragile economies.

The elimination of USAID's regional bureaus and key technical offices is another concern. These offices have been vital for building partnerships and connecting businesses to development initiatives. Without clear mechanisms to replace those networks, businesses may struggle to engage effectively with development programs.

By merging MCC, DFC, and USTDA, the administration also risks diluting MCC's distinct strengths. MCC's focus on infrastructure development and policy reform has been crucial in improving business environments in developing countries. Without dedicated support for these efforts, the risk is that DFC's investment-driven approach could overshadow MCC's long-term development priorities.

Lastly, consolidating funding may leave critical gaps. The roadmap proposes eliminating key USAID accounts like Development Assistance (DA) and the Economic Support Fund (ESF). While designed to improve efficiency, this move risks cutting off support for projects in fragile markets that may not deliver immediate financial returns but still produce meaningful social impact.

## How to Get This Right

To avoid these pitfalls, the administration should take a few key steps:

- **Empower Regional Teams to Move Quickly:** Regional DFC teams should have authority to approve smaller deals without waiting for Washington's approval. This will help businesses move faster while still ensuring Washington controls larger investments.
- **Protect Sector Expertise:** The new structure should maintain dedicated advisory roles in sectors like agriculture, finance, and infrastructure. Without this, businesses may struggle to navigate complex markets.
- **Preserve Flexible Financing Tools:** Performance-based funding is promising, but the administration should retain blended finance tools to reduce risks for businesses investing in unstable markets.
- **Establish New Regional Points of Contact:** USAID's regional bureaus have long played a critical role in connecting businesses with development programs. With those bureaus being eliminated, the administration should create clear regional liaison roles within DFC to ensure those partnerships are not lost.

- **Maintain MCC's Focus on Policy Reform:** MCC's emphasis on policy change has been essential in improving investment conditions. The new structure should ensure that this role continues, rather than being folded into DFC's investment-first approach.
- **Create a Funding Mechanism for High-Impact but Risky Ventures:** Eliminating funding mechanisms like Development Assistance (DA) risks leaving important development initiatives without resources. The administration should introduce a dedicated funding stream within DFC to support ventures that deliver social impact, even if they aren't commercially lucrative.

### The Bottom Line

Reforming U.S. foreign assistance is overdue, and prioritizing efficiency makes sense. But there's a risk that the restructuring could weaken what has worked well in the past. To succeed, the administration must balance efficiency with flexibility — and ensure that regional engagement, technical expertise, and flexible financing tools aren't lost in the process. Getting this right isn't just about cutting red tape. It's about ensuring businesses can confidently invest in development and build partnerships that deliver lasting impact.