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U.S. International Development Finance Corporation (DFC)

DFC is a U.S. government agency that uses financial tools to promote private investment in less-developed countries. It seeks to support partners' economic development, U.S. economic interests, and U.S. foreign policy aims. Authorized by the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act, Div. F of P.L. 115-254, 22 U.S.C. §9612 *et seq.*), DFC emerged from congressional intent to enhance U.S. development finance tools and respond to China's "One Belt, One Road" initiative (OBOR). DFC, launched in December 2019, assumed the functions of and replaced the Overseas Private Investment Corporation (OPIC) and the U.S. Agency for International Development's (USAID's) Development Credit Authority (DCA). DFC's authorities exceed those of its predecessors, including a higher lending cap ($60 billion, compared to OPIC's $29 billion cap) and a longer authorization (seven years, while OPIC's was often a year).

Overview

Organization. The BUILD Act vests DFC powers in a nine-member Board: a Chief Executive Officer (CEO); the Secretaries of State, the Treasury, and Commerce; the USAID Administrator; and four nongovernment members (for three-year terms, renewable once). Chaired by the Secretary of State, the Board oversees the agency, guides policy, and approves major projects. It has delegated some powers to the CEO. The Board meets quarterly, and a quorum is five members. Board members are presidentially appointed and Senate confirmed. The Senate confirmed Scott A. Nathan to be the CEO of DFC in 2022. Other statutory officers are a Deputy CEO, Chief Risk Officer, Chief Development Officer, and Inspector General (IG). On its own authority, DFC created a Chief Climate Officer and a Chief Diversity and Inclusion Officer, among others.

Tools. DFC is authorized to provide:

- *Direct loans and loan guarantees* of up to $1 billion for terms between 5 and 25 years, subject to federal credit law and other requirements, for projects and funds.
- *Political risk insurance* coverage of up to $1 billion against losses due to political risks (e.g., currency inconvertibility, expropriation, and political violence), and *reinsurance* to increase underwriting capacity.
- *Equity investment* in specific projects or investment funds, with exposure limited to no more than 30% per project and 35% of overall DFC exposure.
- *Feasibility studies* and *technical assistance* to support project identification and preparation. DFC must aim to require cost-sharing by those receiving funds.

DFC's activities are backed by the U.S. government's full faith and credit. DFC charges interest and other fees, generally at market rates. It considers support through a competitive application process. Use of DFC services depends on client demand DFC also seeks to attract applications through sector-specific requests for proposals and other outreach.

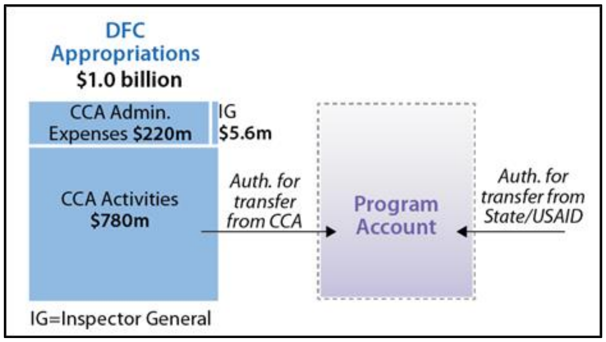
Requirements and Limitations. In general, DFC must prioritize support for low- and lower-middle-income economies. DFC may support activities in upper-middle-income economies if such support is certified to have U.S. economic or foreign policy interests at stake and is designed for development impact. In addition, DFC may support energy projects in Europe and Eurasia regardless of country income classification, intended in part to reduce their dependence on Russian natural gas. DFC must give preference to projects involving U.S. persons as project sponsors or participants, as well as projects in countries complying with international trade obligations and embracing private enterprise. Additional factors relate to environmental and social impact, worker rights, and human rights, among other considerations. DFC also seeks to complement, and not compete with, the private sector.

Policies and Processes. Pursuant to the BUILD Act, DFC sets and maintains internal policies to guide programs. DFC's corporate bylaws and all Board resolutions guide overall management and agency structure. DFC's Environmental and Social Policy and Procedures (ESPP) outline how DFC is to consider project applications and monitor ongoing projects. DFC uses a quantitative assessment tool, the "Impact Quotient" (IQ) to indicate likely development impact. A Transparency Policy to guide DFC's public information processes does not yet appear to be finalized, including for publicizing IQ information per the BUILD Act. DFC also monitors projects for credit risks and compliance with statutory and policy requirements.

Funding. Congress appropriates funding for DFC through a Corporate Capital Account (CCA), consisting of appropriations and collections. DFC funding designates a portion of CCA collections that may be retained for operating expenses, and excess collections to date have been credited to the Treasury. DFC may transfer funds to the "program account," which finances most DFC credit activities. USAID and the State Department may also fund DFC activities through a transfer. In FY2021, DFC's revenue exceeded costs by $162 million. In contrast, in FY2022, costs exceeded revenue by $16 million. Per DFC, a key cost driver was increased insurance claims related to political violence in Ukraine. For both FY2021 and FY2022, DFC maintained corporate reserves of $6.2 billion in Treasury securities.

The Biden Administration requested $1.02 billion for DFC for FY2024 (see **Figure 1**), up slightly from FY2023 appropriations ($1.01 billion) and a nearly 50% increase from FY2022. It justifies the request as key to U.S. support for the G7-led Partnership for Global Infrastructure Investment (PGII) and more effective responses to challenges from strategic competitors. The Administration, as part of its proposed "Out-Compete China" initiative, also seeks $2 billion in mandatory funding for DFC to create an equity investment revolving fund outside of its annual appropriations.

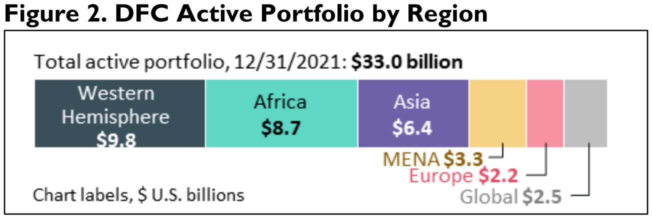
Figure 1. FY2023 DFC Appropriations



Source: CRS, based on P.L. 117-228 and P.L. 117-328.

Recent Activity. In FY2022, DFC made $7.4 billion in new investment commitments (up from $6.8 billion in FY2021), resulting in a total projected portfolio of $35.7 billion (up from $32.8 billion in FY2021). The FY2022 new commitments spanned 183 new projects in 56 countries. DFC expects 131 of the new commitments to be in low- and lower-middle-income economies. New commitments seek to address various issues, such as climate, energy security, food security, Russia's war against Ukraine, small and women-owned business financing, and health system resiliency and pandemic preparedness. PGII support was 69% of new FY2022 commitments. By region, the Western Hemisphere and Sub-Saharan Africa have had the largest shares of DFC's active portfolio (see **Figure 2**).

Figure 2. DFC Active Portfolio by Region



Source: CRS, with data from DFC website, accessed 4/13/23.
Note: DFC-reported categories; country classification aligns with State Department regions. DFC's Central Asia category included under Asia; MENA=Middle East and North Africa; Global reflects projects that may operate in multiple regions.

DFC has taken steps to clarify or revise its operations and decision-making. For example, DFC

- Updated its *ESPP* in 2020 to remove an OPIC-era ban on support for nuclear energy projects, and is now working on a broader update to align the ESPP more closely with the best practices and standards of its peer development finance institutions (DFIs).
- Issued a *development strategy* in 2020 that set overall, sectoral, and geographic priorities, targeting $75 billion in catalyzed investments by 2025. It is also updating its priorities, but the timeline is unclear.
- Launched an operational *strategic plan* for FY2022-2026, setting four key goals, oriented on private sector outreach, development impact, internal performance management, and scaling up operations. The plan includes new priority sectors, subject to change.

DFC supports various policy initiatives, both ones that it leads and others in collaboration with partners. DFC-specific initiatives include the 2X Women's Initiative and the Health and Prosperity Initiative. "Whole-of-government" initiatives in which DFC participates include the U.S. International Climate Finance Plan, Power Africa, and the trade-focused Prosper Africa. In addition to supporting PGII, DFC also supports other international efforts, such as partnering with other DFIs on COVID-19 pandemic responses, and supporting the Blue Dot Network, an international infrastructure standards-setting initiative.

Select Issues for Congress

Mandates and Effectiveness. While the BUILD Act garnered widespread support as an opportunity to enhance U.S. strategic competition with China, some policymakers see both risks and opportunities for U.S. development finance. Some Members continue to debate elevating DFC's role in countering China's OBOR, the financing scale of which has been assessed to exceed that of DFC and other major DFIs. Issues include whether to: tightly focus DFC on offering alternatives to OBOR support; give DFC more resources to counter OBOR; emphasize particular project-specific approaches (e.g., to exclude Chinese suppliers from DFC projects, or focus on infrastructure and projects with standards-setting potential); or use DFC to help diversify critical U.S. supply chains.

Such efforts may raise tensions with DFC's development mandate, which other Members seek to prioritize. Some stakeholders argued that easing DFC's income restrictions for higher-income countries, for example, may diminish development impact. Congress also may examine whether DFC needs to adjust its approach to transparency to improve the agency's effectiveness and accountability.

Equity Authority. Some stakeholders express concern that current budgetary treatment constrains DFC's new equity authority, which they view as a key tool for DFC to have more flexibility to invest in firms in earlier growth stages, partner more effectively with other DFIs, and support more impactful investments. Such concerns prompted legislative proposals in the 117th Congress to change such budget treatment of equity, and the President's FY2024 budget proposal for an equity revolving fund. Critics previously have voiced concerns that equity investments give the government an undue stake in private enterprise.

International DFI Landscape. Congress may assess DFC's current cooperation with foreign DFIs on key policy goals, and consider whether to direct DFC to intensify such cooperation or to seek to emphasize particular policy goals. Congress also may seek more authoritative information on how DFC compares with other foreign DFIs' activities, policies, and impact. Data challenges may be especially pronounced with respect to China.

Interagency Relations. Congress may seek to shape DFC's work with other federal foreign policy, aid, and trade agencies, and in particular, DFC's ongoing linkages to USAID. DFC's agency relationships and interagency engagement may signal DFC's policy emphasis.

For more, see CRS Report R47006, *U.S. International Development Finance Corporation: Overview and Issues*.

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