February 20, 2020

U.S. International Development Finance Corporation (DFC)

The U.S. International Development Finance Corporation (DFC), a wholly owned U.S. government corporation, is charged with promoting private investment in developing countries to support U.S. global development goals and economic interests. DFC seeks to transform U.S. support for private sector investment in less-developed countries. Part of the U.S. policy response to China's state-directed overseas financing model and its Belt and Road Initiative (BRI), DFC aims to promote a U.S. model that is market-driven and emphasizes transparency, environmental and social safeguards, and debt sustainability for partner countries. DFC aims to "ensure projects produce positive developmental impacts, apply best practices with respect to environmental and social safeguards, and respect human rights, including worker rights."

DFC was authorized by the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act, P.L. 115-254). The BUILD Act consolidated all of the functions of the Overseas Private Investment Corporation (OPIC) (see **text box**) and the Development Credit Authority (DCA) function of the U.S. Agency for International Development (USAID), aiming to achieve greater cost-saving and efficiency. DFC launched operations after a funding delay that was resolved in late December 2019 with the enactment of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94).

New DFC vs. OPIC

While DFC carries over OPIC's authorities and many of its policy requirements, some key distinctions include that DFC has:

- *more "tools"* (e.g., authority to make limited equity investments, provide technical assistance, and conduct feasibility studies);
- *more capacity* ($60 billion exposure cap vs. OPIC's $29 billion);
- *a longer authorization period* (seven years vs. OPIC's year-to-year authorization in recent years); and
- *more specific oversight* (e.g., its own Inspector General (IG) vs. OPIC, which was under USAID's IG).

Structure and Organization

DFC is led by a nine-member Board of Directors, comprising a Chief Executive Officer (CEO), four other U.S. government officials (the Secretary of State, USAID Administrator, Secretary of the Treasury, and Secretary of Commerce, or their designees); and four nongovernment members, subject to presidential appointment and Senate confirmation. The Chairperson is the Secretary of State, and the Vice Chairperson is the USAID Administrator (or their designees). All DFC powers are vested in the Board, which provides direction and general oversight as well as authorizing major DFC decisions. The Board must meet no less than quarterly, and a quorum is five members.

The CEO reports to the Board and is responsible for DFC operations and management. The Deputy CEO assists the CEO in these activities. The CEO and Deputy CEO are presidentially appointed and Senate confirmed. On September 26, 2019, the Senate confirmed Adam S. Boehler as the CEO. Other DFC officers include a Chief Risk Officer and Chief Development Officer (CDO), who are appointed by the CEO.

Authorities and Products

DFC's activities are backed by the full faith and credit of the U.S. government. DFC charges fees and premiums for its support. The DFC currently offers the following products:

- *Direct loans and loan guarantees* of up to $500 million and for terms up to 20 years, subject to federal credit law and other requirements. Under this authority, the DCA program facilitates lending to small and medium enterprises in developing countries by guaranteeing up to 50% of loans from local financial institutions that these lenders would otherwise deem too risky.
- *Political risk insurance* to private sector entities and qualifying sovereign entities with coverage of up to $500 million against losses due to political risks (e.g., currency inconvertibility, expropriation, and political violence, including terrorism), and *reinsurance* to increase underwriting capacity.
- *Equity financing* directly into specific projects as a minority investor or in investment funds. DFC exposure is limited to no more than 30% per project and no more than 35% of DFC's overall exposure.
- *Feasibility studies* and *technical assistance* to support project identification and preparation, including for the energy sector, women's economic empowerment, microenterprise households, or other small business activities. To the maximum extent practicable, DFC must require cost-sharing by those receiving funds.

Requirements and Limitations

DFC is allowed to provide support only if it is necessary to alleviate a credit market imperfection or to achieve a U.S. development or foreign policy goal. By statute, DFC must prioritize support for less-developed countries and restrict its support in upper-middle-income economies unless presidential certification and development benefit requirements are met. Among other factors, the BUILD Act requires that DFC must

- give preferential consideration to projects involving private-sector entities that are U.S. persons (but has no requirement for a U.S. nexus);
- give preferential consideration to countries complying (or making substantial progress to comply) with international trade obligations;

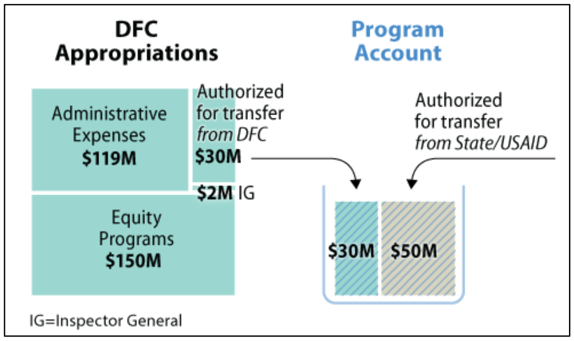
- give preferential consideration to projects in countries that embrace private enterprise;
- make efforts to ensure that at least 50% of all DFC-supported projects are associated with U.S. small businesses;
- reject any project that is likely to have "significant adverse environmental or social impacts" unless DFC provides an impact notification;
- work only in countries that are taking steps to adopt and implement worker rights protections; and
- cap the agency's support for a single entity at no more than 5% of DFC's overall portfolio.

Appropriations

DFC is funded through a Corporate Capital Account (CCA), comprising collections from fees for services, interest earnings, returns on investments, and transfers of unexpended balances from predecessor agencies. Rather than an outlay from Treasury funds, DFC appropriations designate a portion of CCA collections that may be retained for operating and program expenses. Such collections are meant to offset expenses and make DFC self-sustaining, with any excess collections a net credit to the Treasury.

FY2020 appropriations designate $299 million of CCA collections for DFC activities. A portion of those funds is authorized for transfer to the "program account" (which includes direct loans, loan guarantees, investment promotion, feasibility studies, and technical assistance). USAID and the State Department have also been authorized to transfer a portion of foreign assistance appropriations to DFC to fund activities that support their projects, such as those previously funded through DCA (see **Figure 1**).

Figure 1.U.S. DFC, FY2020 Appropriations



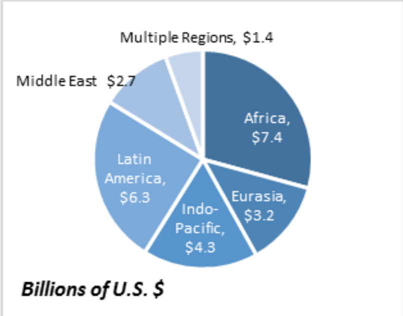
Source: CRS, based on P.L. 116-94.

Activities and Priorities

DFC's activities are "demand-driven" in that utilization of its programs depends largely on alignment with commercial interests. DFC is implementing previously OPIC-managed active projects, and is expected to pursue new projects (see **Figure 2**). DFC priorities include supporting

- the *2X Women's Initiative* to empower women across the developing world;
- *Connect Africa* to invest $1 billion over three years to support economic growth and connectivity in Africa;
- "impact investing" focused on generating positive social or environmental impacts; and
- the Indo-Pacific region, including partnerships with regional allies to support infrastructure development.

Figure 2.DFC Inherited Active Commitments



Source: CRS, based on DFC data, accessed February 20, 2020.

Issues for Congress

As DFC is a new entity, its organizational structure and agency mission may take some time to coalesce. As DFC matures, Congress may examine whether DFC is advancing U.S. commercial interests and development goals, and whether it is addressing U.S. strategic concerns, especially vis-à-vis China. For instance, some have questioned DFC's statutory focus on less-developed countries—a debate that is amplified by the European Energy Security and Diversification Act of 2019 (P.L. 116-94, Div. P, Title XX), which eases the less-developed country requirement for energy infrastructure projects in Europe and Eurasia. Some development advocates have voiced concern that this may signal subordination of development results to strategic interests, while private sector advocates have highlighted commercial opportunities in upper-middle-income countries that may have both strategic and development benefits.

These dynamics present oversight issues, including the role of the Chief Development Officer, how DFC measures the development impact of its projects, DFC's relationship with other federal trade and investment financing and promotion agencies whose statutory missions may differ, and its role in interagency processes and decisionmaking.

As DFC approves new projects, various considerations may arise. Congress may assess DFC's geographic and sectoral concentration, and whether it advances DFC's various goals while managing credit and other risks. A key issue in this regard is whether DFC is an effective counterbalance to China-driven efforts in key markets—a major rationale for the BUILD Act. Congress may also track DFC use of new authorities, such as equity investments and technical assistance. DFC's authority to establish new Enterprise Funds and to manage sovereign loan may arise as an issue. Another issue is whether tools on the horizon in development finance, such as blended finance and impact bonds, should be added to DFC's product line.

Congress also could consider whether to encourage the Administration to pursue international rules on development finance comparable to export credit financing.

In its deliberations in these various areas, Congress may consider if any changes to the BUILD Act are needed to achieve desired outcomes for DFC and for its role in advancing U.S. policies.

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