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U.S. International Development Finance Corporation (DFC)

Overview

The U.S. International Development Finance Corporation (DFC) is a new U.S. government agency that aims to promote private investment in developing countries to support U.S. global development, foreign policy, and economic interests. DFC emerged from a general congressional consensus, supported by the Trump Administration, to elevate U.S. efforts to respond to China's Belt and Road Initiative (BRI) and China's growing economic influence in developing countries, modernize U.S. development finance tools for private capital mobilization, and streamline bureaucracy.

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.*) for seven years through October 2025, DFC assumed the development finance functions of the Overseas Private Investment Corporation (OPIC, now terminated) and the U.S. Agency for International Development (USAID) Development Credit Authority (DCA). The BUILD Act also expanded its authorities and increased its exposure cap to $60 billion, compared to OPIC's former $29 billion exposure cap. DFC launched operations in December 2019.

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, who is the Chairperson of the Board, the USAID Administrator, who is the Vice Chairperson, the Secretary of the Treasury, and the Secretary of Commerce, or their designees); and four nongovernment members (for three-year terms, renewable once). All Board positions are presidentially appointed and subject to Senate confirmation. All DFC powers are vested in the Board, which provides direction and general oversight, as well as approves major DFC decisions. The CEO acts on the Board's direction. The Board meets quarterly, and a quorum is five members.

Other DFC officers include the Deputy CEO (also a Senate-confirmed, presidentially appointed position), Chief Risk Officer, Chief Development Officer, and Inspector General (IG). The Senate confirmed DFC's first CEO on September 26, 2019, and two nongovernment board members on December 26, 2020; it did not act upon other nominations, including for the Deputy CEO, in the 116th Congress.

Authorities

DFC's activities are backed by the full faith and credit of the U.S. government. DFC charges fees and premiums for its support. DFC attained the authorities of OPIC (financing, insurance, special projects) and USAID (technical assistance, enterprise funds), and also acquired new authorities under the BUILD Act (e.g., equity investment, feasibility studies)—discussed briefly below.

- *Direct loans and loan guarantees* of up to $1 billion and for terms up to 25 years, subject to federal credit law and other requirements, for investment projects and funds. The Development Credit Office facilitates lending of up to $50 million to small and medium enterprises in developing countries.
- *Political risk insurance* with coverage of up to $1 billion against losses due to political risks (e.g., currency inconvertibility, expropriation, and political violence, including terrorism), and *reinsurance* to increase underwriting capacity.
- *Direct equity investment* into specific projects or in 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.

Requirements and Limitations

By statute, DFC operates under the foreign policy guidance of the Secretary of State. The BUILD Act imposes various requirements and limitations on DFC support. 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. In general, DFC must prioritize support for less-developed countries, and the President must certify that U.S. economic or foreign policy interests are at stake to support upper-middle income countries. One exception is that DFC may support certain energy infrastructure projects in high-income parts of Europe and Eurasia (Div. P, Title XX, P.L. 116-94).

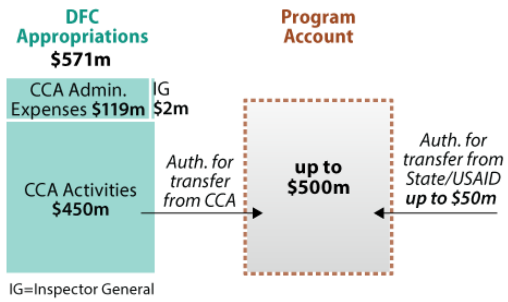
Based on statute, DFC aims for projects to produce positive development impacts, apply best practices with respect to environmental and social safeguards, and respect human rights, including worker rights. Among other things, the DFC board must reject any project likely to have "significant adverse environmental or social impacts" unless DFC provides a public notification. DFC's Environmental and Social Policy and Procedures (ESPP) outline how DFC considers project applications and monitors ongoing projects. While initially carrying over OPIC's policies, DFC subsequently revisited them and issued an updated ESPP in July 2020, in which it removed OPIC's prohibition on support for nuclear energy projects.

Appropriations

Congress appropriates to DFC 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. Because DFC forecasts its collections to exceed outlays, Congress designates a portion of CCA collections that may be retained for operating and program expenses. Any excess collections are a net credit to the Treasury.

FY2021 appropriations designate $569 million of CCA collections for DFC activities. DFC may transfer funds to the "program account" (which funds direct loans, loan guarantees, investment promotion, feasibility studies, and technical assistance). USAID and the State Department may also transfer funds to DFC to fund activities that support their projects, such as those previously funded through DCA (see **Figure 1**).

Figure 1. FY2021 DFC Appropriations

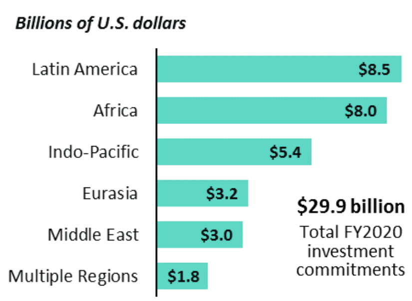


Source: CRS, based on P.L. 116-260.

Activities and Priorities

In its first year, DFC widened its financing activities based, in part, on private sector demand for its services. It also continued to manage the portfolios it inherited from OPIC and DCA. DFC new project commitments totaled $4.8 billion in FY2020 and included projects under its new equity investment and technical assistance authorities. DFC's total FY2020 portfolio exposure exceeded the former OPIC exposure cap of $29 billion, starting to take advantage of DFC's higher exposure cap of $60 billion (see **Figure 2**). DFC reported that in FY2020, its revenue exceeded its costs by $232 million, and that it maintained corporate reserves of $6.2 billion in Treasury securities.

Figure 2. DFC FY2020 Investment Commitments



Source: CRS, based on DFC, FY2020 annual management report.
Note: Regional categories as reported by DFC.

In FY2020, DFC priorities included supporting the Indo-Pacific Strategy, the 2X Women's Initiative, Prosper Africa (which the DFC CEO heads), the America Crecé initiative in Latin America and the Caribbean, and the Portfolio for Innovation and Impact. DFC may work with other foreign assistance and trade promotion agencies on its activities.

In addition, President Trump delegated authority to the CEO of the DFC to use domestic lending authorities of the Defense Production Act (DPA, 50 U.S.C. §4501 *et seq.*) to respond to the ongoing Coronavirus Disease 2019 (COVID-19) pandemic. On November 19, 2020, DFC approved a $590 million loan for domestic production of injectors for COVID-19 vaccines. In contrast, a potential financing deal to Eastman Kodak Company to produce pharmaceutical components has been on hold amid scrutiny from Congress and the Securities and Exchange Commission (SEC).

DFC is a partner in the Blue Dot Network, an initiative with U.S. allies to establish common transnational standards for infrastructure investments. It also coordinates with other bilateral development finance institutions (DFIs) through the DFI Alliance.

Monitoring and Impact

DFC monitors projects for credit risks and compliance with statutory and policy requirements. It recently launched a new tool for measuring development impact, the Impact Quotient, and its inaugural development strategy. Given DFC's early stage, the agency has not issued an evaluation of its overall performance in meeting development goals.

Issues for Congress

As DFC matures, Congress may examine whether DFC is advancing U.S. development, foreign policy, and economic interests, and whether it is addressing U.S. strategic concerns, especially vis-à-vis China. Recent developments amplified tensions that may be inherent in these objectives. The easing of DFC's income restrictions for energy projects in Europe and Eurasia has garnered criticism that this may subordinate development results to strategic interests. By contrast, private sector advocates assert that commercial opportunities in upper-middle-income countries may have both strategic and development benefits. Development advocates also remain concerned that any future DFC-DPA domestic activities may distract the DFC from its legislative mandate to support private investment overseas.

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 decision-making.

Congress may assess DFC's balancing of geographic, sectoral, and risk profile to advance DFC goals. Some issues may include whether DFC is an effective counterbalance to China-driven efforts in key markets and how DFC uses the Impact Quotient in decision-making.

Congress may track DFC use of its new authorities, such as its role in new Enterprise Funds and the sovereign loan portfolio. Another issue is how composite tools such as blended finance and impact bonds fit with DFC's products.

Congress also could consider DFC partnerships with other DFIs, such as whether to encourage negotiating global rules for development finance to create a level playing field for U.S. firms and to highlight best practices to enhance development impact, comparable to existing rules for export credit.

In its deliberations, Congress may examine DFC's policies and any needed adjustments. Congress may also consider changes to the BUILD Act to achieve desired outcomes.

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