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U.S. International Development Finance Corporation (DFC)

The U.S. International Development Finance Corporation (DFC) is a U.S. government agency that uses financial tools to promote private investment in less-developed countries. It seeks to support 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 interest to enhance U.S. development finance tools and respond to China's "One Belt, One Road" (OBOR) initiative. DFC launched in December 2019. It 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 has expanded authorities, a higher lending cap of \$60 billion, and a longer authorization of seven years.

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 DFC projects. It has delegated some powers to the CEO, who manages day-to-day operations. The Board meets quarterly, and a quorum is five members. Board members are presidentially appointed and Senate confirmed. DFC is currently under acting CEO leadership.

Other DFC officers include the Deputy CEO, Chief Risk Officer, Chief Development Officer, and Inspector General (IG). DFC also established a new Chief Climate Officer position for climate finance efforts. Various offices, departments, and advisory units carry out DFC's functions.

Authorities. DFC's authorities include:

- *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 investment 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 for its support. DFC considers potential activities through a

competitive application process. Usage of DFC services depends on client demand, but the agency seeks to attract applications through sector-specific requests for proposals and other outreach activity.

Separate from its BUILD Act authorities, DFC also has delegated lending authorities of the Defense Production Act (DPA, 50 U.S.C. §4501 *et seq.*) to support the domestic response to the COVID-19 pandemic.

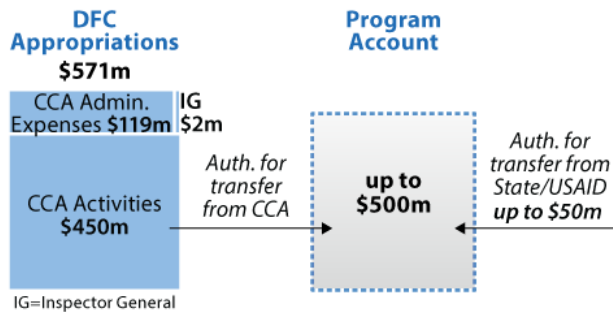
Requirements and Limitations. In general, DFC must prioritize support for low- and lower-middle-income economies. Upper-middle-income economy support may be approved if it is certified to have U.S. economic or foreign policy interests at stake and is designed for development impact. DFC is limited from investing in high-income countries, except for certain energy infrastructure projects in Europe and Eurasia (Div. P, Title XX, P.L. 116-94).

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. Projects must take into account factors relating 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," to indicate likely development impact. A Transparency Policy is to guide DFC's public information processes, though it remains in draft form. 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 its costs by \$162 million, and it had corporate reserves of \$6.2 billion in Treasury securities. Congress provided \$569 million for DFC activities in FY2021 (see **Figure 1**), and the Biden Administration requested \$601 million for FY2022. Congress has yet to enact full-year FY2022 appropriations.

Figure 1. FY2021 DFC Appropriations

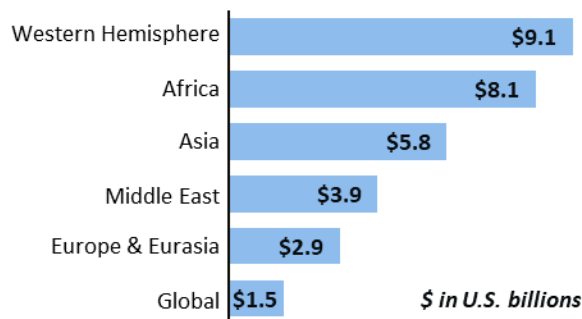
Source: CRS, based on P.L. 116-260.

Recent Activity. In FY2021, DFC committed \$6.8 billion for new projects (up from \$4.8 billion in FY2020), resulting in a total portfolio of \$32.8 billion (up from \$29.7 billion in FY2020). Finance and infrastructure were the largest sectors of support, and the Western Hemisphere and sub-Saharan Africa were the largest regions (as of June 30, 2021, see **Figure 2**).

DFC has taken several steps to reorient its operations and decision-making. In 2020, DFC updated its ESPP to remove an OPIC-era prohibition on support for nuclear energy projects. DFC also issued its inaugural development strategy in 2020. Its stated priorities are, among others, the Indo-Pacific region, women's economic empowerment, investment in Africa and the Western Hemisphere, innovation, and climate change. DFC is revising its development strategy to emphasize climate change.

DFC also supports several federal multi-agency initiatives, including Feed the Future, Power Africa, and the trade-focused Prosper Africa. DFC also has its own initiatives, including the 2X Women's Initiative and the Health and Prosperity Initiative to improve health systems amid the Coronavirus Disease 2019 (COVID-19) pandemic.

Additionally, DFC launched new cooperative efforts with other development finance institutions (DFIs), including through the DFI Alliance, which is engaged in COVID-19 pandemic responses. DFC also is a partner in an international infrastructure standards-setting initiative.

Figure 2. DFC Active Portfolio (as of June 30, 2021)

Source: CRS, based on latest available data from DFC, "Transparency and Accountability" webpage, accessed 1/28/22.

Select Issues for Congress

In the 117th Congress, major bills introduced address some issues raised in its first two years, as part of broader sets of measures to counter China (S. 1260, H.R. 3524, H.R. 4521). Other bills introduced would seek to shape DFC

priorities and direct its interagency engagement, among other things. Key issues before Congress include:

Scope and Priorities. DFC's scope of authorities and the balance of its portfolio have prompted extensive congressional involvement. Legislative deliberations continue regarding whether to expand DFC's \$60 billion lending cap, modify or remove restrictions on support to upper-middle-income and high-income countries, prioritize DFC's lending in certain sectors or regions, and encourage more equity investments by revising how they are evaluated in federal budget accounting. Other areas of congressional interest include DFC's prioritization and modification of its policies, such as on the environment, climate change, and transparency.

Mandates and Effectiveness. While the BUILD Act garnered widespread support as an opportunity to enhance U.S. strategic competition with China, policymakers saw both risks and opportunities for U.S. development efforts. DFC's balance of these aims remains actively debated.

Many Members are interested in DFC's role in countering China's OBOR, the financing scale of which is generally assessed to exceed that of DFC and other major DFIs. Issues include whether to: tighten DFC's focus on offering alternatives to OBOR support, afford DFC greater resources, and emphasize particular project-specific approaches, e.g., to attach conditions to exclude Chinese suppliers, focus on infrastructure and other projects with standards-setting potential and economic impact, and support U.S. supply chains for critical sectors. These issues may tie in to broader scrutiny of DFC's role in advancing U.S. economic competitiveness by offering commercial opportunities for U.S. firms, disseminating U.S. values, and providing footholds for U.S.-centric global value chains.

Such efforts, however, may raise tensions with DFC's development mandate. Debate over easing DFC's income restrictions elicited criticism that development impact was getting ignored, and DFC-DPA activities provoked further concern over distracting from DFC's mission. DFC asserted that DPA activities are "walled off" from BUILD Act activity and that development impact and foreign policy interests often overlap, but concern continues.

International DFI Landscape. Congress may consider directing DFC to partner more intensively with foreign DFIs on key policy goals; and whether to encourage the Administration to pursue negotiations on global rules for development finance to create a level playing field for U.S. firms and to highlight best practices. Congress also may seek more authoritative information on how DFC compares with other foreign DFIs; such comparisons face data challenges especially with respect to China.

Interagency Relations. Congress may seek to shape DFC's work with other federal foreign policy, aid, and trade agencies. DFC's agency relationships and interagency engagement may signal DFC's policy emphasis. For further discussion, see CRS Report R47006, *U.S. International Development Finance Corporation: Overview and Issues*.

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