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U.S. International Development Finance Corporation: Overview and Issues

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SUMMARY

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U.S. International Development Finance Corporation: Overview and Issues

The U.S. International Development Finance Corporation (DFC) is the U.S. government's development finance institution (DFI). It is authorized by the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act, Division F of P.L. 115-254) and launched operations in December 2019. DFC uses financial tools to promote private investment in the economic development of less-developed countries. It aims to support development impact, U.S. economic interests, and U.S. foreign policy—while taking into account, in its financing operations, the economic and financial soundness and development objectives of the projects for which it provides support. DFC operates under the Secretary of State's foreign policy guidance.

DFC emerged from congressional interest in elevating U.S. efforts to respond to China's "One Belt, One Road" initiative (OBOR, also known as the "Belt and Road Initiative" (BRI)), achieve greater efficiencies through agency consolidation, and modernize foreign aid tools to harness private capital in less-developed economies. DFC assumed the functions of the Overseas Private Investment Corporation (OPIC) and the U.S. Agency for International Development's (USAID's) Development Credit Authority (DCA), both now replaced by DFC.

The BUILD Act vests DFC powers in a nine-member Board of Directors, comprised of DFC's Chief Executive Officer (CEO), four other U.S. government officials, and four nongovernment officials. The Secretary of State chairs the Board. The President appoints all Board members with the advice and consent of the Senate. The Board provides policy guidance to and general oversight of DFC, and it holds authority to approve DFC support. It has delegated some of its powers to the CEO, who manages day-to-day DFC operations.

Per the BUILD Act, DFC both inherited OPIC's and DCA's authorities (e.g., direct loans, loan guarantees, and political risk insurance) and acquired new features, including additional authorities (e.g., equity investments and technical assistance), a higher lending cap of $60 billion, and a longer authorization of seven years. In addition to prioritizing less-developed countries, DFC must give preference to projects involving U.S. persons as project sponsors or participants, as well as preference for support 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, and comply with U.S. sanctions, among other considerations. DFC also seeks to complement, and not compete with, the private sector.

DFC is funded through a Corporate Capital Account (CCA), consisting of appropriations and collections. DFC appropriations designate a portion of CCA collections that may be retained for operating expenses, and excess collections are credited to the Department of the Treasury. DFC's revenue exceeded its cost by $162 million in FY2021.

DFC's activities are demand-driven—usage depends on commercial interest—but the agency seeks to attract applications with outreach and calls for proposals. In FY2021, DFC committed $6.8 billion for new investment projects, around two-thirds of which were in low- and lower-middle-income countries. DFC's portfolio, which includes former OPIC- and DCA-managed projects, reached nearly $33 billion in FY2021. DFC's stated priorities include the Indo-Pacific region, women's economic empowerment, investment in Africa and the Western Hemisphere, innovation, and, most recently, climate change.

In conducting oversight, appropriating funds, and considering legislation related to DFC, Congress may consider a number of questions and issues, including

- Do DFC's current authorities effectively support its mission? Would additional or revised authorities be beneficial?
- What is the appropriate size for DFC? What should be its scope and focus?
- What goals should DFC's policies advance and under what procedures?
- How effective is DFC in advancing its strategic and development aims, and how should it balance these aims?
- How does DFC compare to China's OBOR activities, both in terms of overall financing and project scope?
- What role should DFC play in the multilateral international development finance context?
- How financially sustainable are DFC's activities?
- What opportunities and challenges exist in coordinating with other U.S. foreign assistance and trade agencies?

In the 117th Congress, a number of bills have been introduced to address some of these issues, including two bills to counter China and advance other policy objectives (S. 1260, H.R. 3524) that contain provisions related to the DFC.

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Introduction

The U.S. International Development Finance Corporation (DFC) is a wholly U.S. government-owned corporation that aims to promote private investment to aid the economic development of less-developed countries by providing financing, insurance, equity investment, and technical assistance.[1] DFC seeks to support development impact, U.S. economic interests, and U.S. foreign policy—while taking into account, in its financing operations, the economic and financial soundness and development objectives of the projects for which it provides support.[2] DFC operates under the foreign policy guidance of the Secretary of State.

Congress authorized DFC in the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act, Division F of P.L. 115-254). DFC emerged from general congressional interest, supported by the Trump Administration, that the United States should restructure and enhance its development finance tools and prioritize efforts to respond to China's growing economic influence in developing countries under the Chinese government's "One Belt, One Road" (OBOR) initiative—also known as the "Belt and Road Initiative" (BRI).[3] DFC began operations in late December 2019.

The BUILD Act established DFC as the U.S. government's development finance institution (DFI), assuming the functions of the Overseas Private Investment Corporation (OPIC)—the United States' DFI for nearly 50 years—and the Development Credit Authority (DCA) of the U.S. Agency for International Development (USAID).[4] While DFC is a consolidated agency, its authorities, capacity, and mission extend beyond those of its predecessor entities.

This report provides an overview of DFC's mission, structure, programs, funding, and other aspects of operations; discussion of recent developments; and analysis of key issues for Congress.

Brief History of U.S. Development Finance

U.S. development finance activities (see **text box**) date to the post-World War II Marshall Plan, which included credit programs for European importers to purchase U.S. goods.[5] In 1969, President Richard Nixon shifted all development finance activities from USAID into the newly created OPIC to bring "businesslike management" to development finance.[6]

[1] CRS In Focus IF11436, *U.S. International Development Finance Corporation (DFC)*, by Shayerah I. Akhtar and Nick M. Brown; and CRS Report R45461, *BUILD Act: Frequently Asked Questions About the New U.S. International Development Finance Corporation*, by Shayerah I. Akhtar and Marian L. Lawson.

[2] For DFC's legislative purpose, see 22 U.S.C. §9612(b); Sec. 1412(b) of the Better Utilization of Investments Leading to Development (BUILD) Act of 2018 (Division F of P.L. 115-254), hereinafter BUILD Act; see also DFC, "Overview," at https://www.dfc.gov/who-we-are/overview.

[3] This report will use the term "One Belt, One Road" (OBOR). See CRS In Focus IF11735, *China's "One Belt, One Road" Initiative: Economic Issues*, by Karen M. Sutter, Andres B. Schwarzenberg, and Michael D. Sutherland.

[4] Per the BUILD Act, OPIC is now terminated. See CRS In Focus IF10659, *Overseas Private Investment Corporation (OPIC)*, by Shayerah I. Akhtar.

[5] CRS Report R45079, *The Marshall Plan: Design, Accomplishments, and Significance*, by Curt Tarnoff.

[6] President Richard Nixon, "Special Message to Congress to the Congress on Foreign Aid. May 28, 1969," available in Public Papers of the Presidents: Richard Nixon, Washington, U.S. Government Printing Office, 1969, p. 412.

Development Finance Terminology and Context

Development finance is commonly used to describe donor government-backed financing to support capital investments in developing countries, generally in partnership with the private sector. It often is aimed toward promoting economic development by supporting investments in underdeveloped or undercapitalized sectors in difficult markets. For instance, development finance has been prominent in such sectors as infrastructure, housing, and more recently, digital connectivity. It is often provided at below-market rates and for longer periods of time than available in the private sector, and, in the United States, it generally comes with market access, environmental, social, and other policy conditions.

Development finance institutions (DFIs) are the bilateral (national) and multilateral entities that conduct development finance. Some European DFIs were founded shortly after World War II, and U.S. development finance activities also date to the post-war era. More recently, China has become a major state-led actor in financing to overseas markets. DFIs generally aim to be

- *Additional*—mobilizing private sector activity that would not otherwise happen. DFIs seek to augment private capital by mitigating actual or perceived risk in developing markets, generally seeking to improve projects' commercial terms and, ideally, shifting the financial structure to be economically viable. For instance, for large-scale, long-term infrastructure projects, the private sector may not have the appetite to shoulder the political and commercial risks alone; government project financing that may be on a longer time horizon may help to make the projects more viable, and also to fill liquidity gaps.
- *Catalytic*—mobilizing additional private investment beyond the individual project at hand. DFIs can serve as pioneers in new markets, taking initial risk in part to spur other commercial investments in the country or sector, such as emerging sectors, including digital connectivity and renewable energy.
- *Countercyclical*—stepping in more when private financial institutions retreat during times of financial crisis or other shocks, such as the ongoing Coronavirus Disease 2019 (COVID-19) pandemic. For instance, DFIs may support existing partners with additional liquidity and capital to help them remain operational during times of crisis and develop a pipeline for post-crisis investments.

Development finance has often focused on facilitating *foreign direct investment (FDI)*—"investment reflecting a lasting interest and control by a foreign direct investor, resident in one economy, in an enterprise resident in another economy (foreign affiliate)."[7] Lasting interest is often evidenced by a voting share of 10% of more in the direct investment enterprise.[8] Most FDI originates from the United States and other high-income countries that tend to invest in other high-income countries with similar wages, markets, industries, and consumer preferences. Nevertheless, FDI is among a range of sources through which developing countries may receive external financing; others include loans, grants, and remittances. FDI is generally acknowledged to be a key factor for growth in developing economies. In addition to providing capital, FDI can provide technical know-how, managerial and organizational skills, and access to foreign markets, as well as help develop economies through greater innovation and productivity, and better paying, more stable jobs in the sectors attracting FDI and related industries.[9]

From the 1970s to the 2000s, OPIC was funded and reauthorized, with supporters viewing it as a tool for global development and advancing U.S. foreign and trade policy interests.[10] OPIC also faced criticism and some calls in Congress for its dissolution, with opponents arguing that it unfairly subsidized well-resourced U.S. companies, focused certain projects in wealthy countries that could access private capital, or distorted markets and crowded out private investors.[11]

[7] United Nations Conference on Trade and Development (UNCTAD), *2021 Handbook of Statistics*, December 9, 2021, p. 52.

[8] OECD, *OECD Benchmark Definition of Foreign Direct Investment*, Fourth Edition, 2008, p. 17. See also CRS In Focus IF10636, *Foreign Direct Investment: Overview and Issues*, by Shayerah I. Akhtar and James K. Jackson.

[9] World Bank, *Global Investment Competitiveness Report 2017/2018*, p. 1.

[10] For more background, see OPIC, *1971 to 2019: A History of OPIC*, accessed through DFC press archives, at https://www.dfc.gov/sites/default/files/media/documents/OPIC_Retrospective_2019_rs2.pdf.

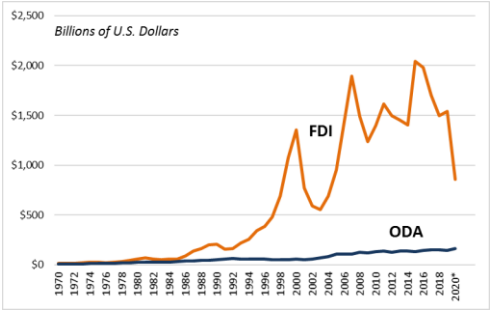
[11] A 1997 effort was introduced in the House as H.R. 387, and a 2010 bill was introduced as H.R. 4980. Both proposals garnered some bipartisan support, though neither saw significant legislative action.

Several administrations also contemplated merging OPIC with the Export-Import Bank (Ex-Im Bank), and other trade agencies, casting it as emblematic of a fragmented and duplicative bureaucracy. In 2011, President Barack Obama launched a new debate over the role of development finance after proposing consolidation of certain trade agencies, potentially to include OPIC, in a unified agency.

Some economic development experts responded to the Obama Administration proposal by raising concerns such moves would weaken OPIC and limit the effectiveness of U.S. development finance.[12] They sought to recast OPIC as a critical tool for supporting global development and U.S. commercial interests, and proposed elevating U.S. development finance tools to better compete with foreign counterparts to incentivize and shape foreign direct investment (FDI).[13] In many developing countries, FDI has become the largest source of capital inflows—outstripping Official Development Assistance (ODA, or foreign aid; see **Figure 1**). Many empirical analyses found that private investment can yield positive development benefits, especially if provided alongside market-opening measures.[14]

The foreign aid donor community adjusted to this new view of the importance of development finance, describing it as a critical tool to channel "vital" private investment toward economic development goals as part of a new agenda for financing development in 2015.[15] The following year, the Obama Administration called a U.S. Development Bank a "promising" and "bipartisan," if still nascent, idea that might leverage growing private capital flows to advance U.S. policy aims, casting development finance as a tool "whose time has come."[16]

Figure 1. ODA and FDI Flows, 1970-2020



Source: CRS, using data from the Organisation for Economic Co-operation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD).

Notes: ODA = Official development assistance; net disbursements of bilateral and multilateral ODA (data from OECD). FDI = Foreign direct investment to developing countries (data from UNCTAD). Classification of countries for ODA and as developing countries may have changed over time.

Critics of foreign aid and government-supported investment financing activities, however, remained opposed to such reforms, seemingly until the growing prominence of Chinese capital flows to developing countries prompted some of these critics to reevaluate their position. The Trump Administration was initially skeptical of OPIC and proposed to eliminate the agency in its first budget request. The Administration came to support strengthening U.S. development finance as it made great power competition a core priority of its foreign policy agenda and sought tools to compete more effectively against growing

[12] See, for instance, Daniel F. Runde, "Making the Case for OPIC," Center for Strategic & International Studies (CSIS), May 12, 2011.

[13] Todd Moss and Benjamin Leo, *A Consolidated U.S. Development Bank: Reorganizing Private Sector Policy Tools in Emerging Markets and Fragile States*, Center for Global Development (CGD), White Paper, April 6, 2011.

[14] Robert Echandi, Jana Krajcovicova, and Christine Zhenwei Qiang, *The Impact of Investment Policy in a Changing Global Economy: A Review of the Literature*, World Bank Group, October 2015.

[15] United Nations, *Addis Ababa Action Agenda of the Third International Conference on Financing for Development*, 2015, p. 17.

[16] President's Global Development Council, *Progress to Date and the Way Forward*, October 2016, p. 2; Elizabeth L. Littlefield, *Exit Memo: Overseas Private Investment Corporation*, January 4, 2017, p. 8.

state-led financing by China in developing countries.[17] The Administration endorsed consolidating OPIC and other development finance authorities under one agency to streamline bureaucracy and present "strong alternatives to state-directed initiatives that come with many strings attached."[18]

A coalition in favor of a more muscular and coordinated development finance institution was emerging concurrently in Congress to respond to mounting concerns about China's financing in developing countries, as well as ongoing interest in expanding U.S. development aid. In the 115th Congress, both the House (H.R. 5105) and the Senate (S. 2463) introduced authorizing legislation shortly after the Trump Administration announced its support.[19] The resulting legislation echoed the Trump Administration's goal to counter China with strengthened U.S. development finance, longstanding arguments for consolidation to reform an "antiquated" and "fragmented" framework for development finance, and priorities of certain Members of Congress to advance global development with enhanced private sector-oriented tools.[20]

At the same time, the legislation did not address all of the criticisms of OPIC skeptics, some of whom, for instance, advocated for the legislation to include a tighter focus on U.S. foreign policy and national security goals, such as countering China. Others, such as former USAID Administrator Mark Green, expressed concern more recently over a lack of integration of DFC's development finance into USAID's aid programs.[21] More generally, government reorganization can raise concerns about the trade-offs between its potential benefits—such as efficiency, effectiveness, and cost savings—and potential drawbacks—such as challenges integrating multiple missions or disruptions to functions.[22]

Agency Overview

Legislative Purpose and Mission

The BUILD Act established that DFC's purpose is to "mobilize and facilitate the participation of private sector capital and skills in the economic development of" less-developed countries and countries transitioning from nonmarket to market economies, "in order to complement the development assistance objectives, and advance the foreign policy interests, of the United States."[23] In advancing this purpose, DFC is "to take into account ... the economic and financial soundness and development objectives of projects for which it provides support.... "[24] DFC has articulated a mission that aligns with this purpose, to advance a "triple aim" of mobilizing

[17] Trump Administration, *National Security Strategy of the United States of America*, December 2017.

[18] The White House, "Remarks by President Trump at APEC CEO Summit," press release, November 10, 2017.

[19] Department of State, *Congressional Budget Justification: Department of State, Foreign Operations, and Related Programs, FY2019*, June 14, 2017, p. 130.

[20] Representative Ed Royce, *Congressional Record*, vol. 164 (July 17, 2018), p. H6330; Senator Corker speaking at U.S. Congress, Senate Committee on Foreign Relations, *Modernizing Development Finance*, 115th Cong., 2nd sess., May 10, 2018. For background, see CRS Report R42555, *Trade Reorganization: Overview and Issues for Congress*, by Shayerah I. Akhtar.

[21] Michael Igoe, "Mark Green: Next administration should address 'fragmentation' in foreign aid," *Devex*, December 10, 2020.

[22] For background, see CRS Report R44909, *Executive Branch Reorganization*, by Henry B. Hogue.

[23] 22 U.S.C. §9612(b); Sec. 1412(b) of the BUILD Act.

[24] Ibid.

investment to advance global development, U.S. foreign policy, and U.S. taxpayer interests.[25] This purpose is similar to the previous mission of OPIC.

The Statement of Policy section of the BUILD Act further elaborates Congress's intent in creating DFC, establishing as U.S. policy "to facilitate market-based private sector development and inclusive economic growth in less developed countries through the provision of credit, capital, and other financial support."[26] The Statement of Policy then sets forth eight elements of U.S. policy underlying DFC's provision of such support (see **text box**).

Policy for DFC

The Statement of Policy section of the BUILD Act sets forth eight policies driving the legislation and the establishment of DFC. Per the BUILD Act, it is U.S. policy to

1. "mobilize private capital in support of sustainable, broad-based economic growth, poverty reduction, and development through demand-driven partnerships with the private sector that further the foreign policy interests of the United States";
2. "finance development that builds and strengthens civic institutions, promotes competition, and provides for public accountability and transparency";
3. "help private sector actors overcome identifiable market gaps and inefficiencies without distorting markets";
4. "achieve clearly defined economic and social development outcomes";
5. "coordinate with institutions with purposes similar to the purposes of [DFC] to leverage resources of those institutions to produce the greatest impact";
6. "provide countries a robust alternative to state-directed investments by authoritarian governments and United States strategic competitors using best practices with respect to transparency and environmental and social safeguards, and which take into account the debt sustainability of partner countries";
7. "leverage private sector capabilities and innovative development tools to help countries transition from recipients of bilateral development assistance toward increased self-reliance"; and
8. "complement and be guided by overall United States foreign policy, development, and national security objectives, taking into account the priorities and needs of countries receiving support."

The BUILD Act does not define how much weight to afford each element.

Source: 22 U.S.C. §9611; Sec. 1411 of the BUILD Act.

Key themes that emerge from DFC's legislative purpose and policy include the following.

- **Economic Development.** DFC aims to mobilize private sector investment to advance development in emerging economies. This aim includes promoting markets and market access; improving economic conditions of the poor; ensuring debt sustainability; and strengthening civic institutions, public accountability, environmental and social safeguards, transparency, and the rule of law.
- **U.S. Economic Interests and Foreign Policy.** DFC seeks to advance U.S. commercial competitiveness and other economic interests, and to integrate its efforts with U.S. foreign policy set by the Secretary of State. A chief focus is to

[25] DFC, *Roadmap for Impact, (Roadmap)*, October 2020, pp. 4, 11. See also DFC, "Overview," at https://www.dfc.gov/who-we-are/overview.

[26] 22 U.S.C. §9611; Sec. 1411 of the BUILD Act.

offer an alternative to predatory investments from authoritarian states.[27] DFC also seeks to help U.S. businesses gain footholds in new markets that may be difficult to reach otherwise.[28]

- **Financial Soundness.** DFC must prioritize economically viable projects—that is, those with a reasonable expectation of positive financial returns. It has articulated a goal to support investments to generate returns for U.S. taxpayers through risk management and investment growth.[29]

Organizational Structure

Management

The BUILD Act vests DFC's powers in a Board of Directors (see **text box**) that comprises nine members: a Chief Executive Officer (CEO); four other U.S. government officials—the Secretary of State (Chairperson of the Board), the USAID Administrator (Vice Chairperson), the Secretary of the Treasury, and the Secretary of Commerce (or their designees)—and four nongovernment members with "relevant experience."[30] The President appoints all Board members with the advice and consent of the Senate, although only the appointments for the CEO, Deputy CEO, and four nongovernment members are done so specifically in the context of their DFC service and not in the context of serving in another executive branch position. A quorum is five members.[31]

The DFC CEO oversees DFC's day-to-day operations. The CEO reports to and is under the direct authority of the Board, which may delegate its powers to the CEO. The Biden Administration nominated Scott A. Nathan as CEO on August 18, 2021.[32] DFC is under acting CEO leadership.[33]

Other statutory DFC officers include a Deputy CEO, a Chief Risk Officer, a Chief Development Officer, and an Inspector General (IG). The CEO appoints the Chief Risk Officer and Chief Development Officer, subject to the Board's approval. The Board

Powers of DFC Board of Directors

The Board, which meets quarterly, provides policy guidance and general oversight to DFC. Its powers include overseeing DFC officers and advisory and support units, and the ability to make appointments and remove officers subject to requirements.

The Board holds sole authority for approving projects, and has retained the authority to approve DFC support for major projects—financing, political risk insurance, equity, and other projects above $50 million, and investment promotion activities and specific projects above $5 million. The Board has delegated the ability to approve projects below these thresholds to the CEO.

The Board also is restricted from certain actions, such as approving a project likely to have adverse environmental or social impacts unless a specific impact notification is issued publicly.

Source: BUILD Act, DFC Corporate Bylaws, and Board resolutions.

[27] DFC, *FY2020 Annual Report*, p. 14.

[28] DFC, "Overview" webpage, at https://www.dfc.gov/who-we-are/overview.

[29] DFC, *Congressional Budget Justification (CBJ) FY2021*, February 2020, p. 2.

[30] DFC's Corporate Bylaws elaborate on the Board's powers, at https://www.dfc.gov/sites/default/files/media/documents/BDR%2821%2938.pdf.

[31] The DFC Board differs in size and composition from the OPIC Board. OPIC's 15-member Board had seven governmental directors—including the OPIC President, the USAID Administrator, the U.S. Trade Representative (USTR), and a Labor Department officer—and eight nongovernmental directors—subject to requirements for representation of small business, labor, and cooperatives interests.

[32] The White House, "President Biden Announces Five Key Nominations," press release, August 18, 2021.

[33] On December 15, 2021, the Senate Foreign Relations Committee ordered the nomination to be reported favorably.

appoints the IG directly. The Chief Risk Officer, the Chief Development Officer, and the IG each reports directly to the Board, which can remove each of these officers with a majority vote. DFC also established a new Chief Climate Officer position to lead its climate-related finance efforts.[34]

DFC Offices, Departments, and Committees

DFC's organizational structure consists of offices and advisory units, of which some are independent and some report to the CEO or Board. The *Office of Development Policy* sets DFC's development strategy and development impact methodology, as well as represents DFC in interagency initiatives.[35] Four offices manage DFC's programs, each reporting to the CEO.

- The *Office of Development Credit* oversees DFC's field-oriented investments, including a Mission Transaction Unit that maintains ongoing links with USAID field missions.[36]
- The *Office of Structured Finance and Insurance* manages DFC's large-scale, long-term investments in infrastructure, energy, and financial services.[37]
- The *Office of Investment Funds* selects fund managers to manage a portfolio of investments, organized by sector or by country.
- The *Office of U.S. Investments* manages domestic investments financed by DFC outside of BUILD Act authorities (see "DFC Activity Under the Defense Production Act").

Five other offices, reporting to the CEO, manage various operational and management aspects of DFC.[38]

DFC utilizes several interagency and external advisory units intended to harmonize stakeholder priorities, formulate joint initiatives, and align programs with other agencies.[39] A nine-member *Development Advisory Council* of external development experts is to advise the Board on DFC's alignment with its development mandate and make recommendations for improvement. A staff-level interagency *Development Finance Coordination Group (DFCG)* is to engage development-focused agencies to both support their efforts and identify opportunities for them to support DFC priorities. The Chief Development Officer is tasked by statute to coordinate DFC and USAID activities.[40] DFC also sits on the *Trade Promotion Coordinating Committee (TPCC)*, an interagency committee that aims to coordinate federal export promotion and financing activities.[41]

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[34] DFC, "DFC Announces First-Ever Chief Climate Officer and Deputy to Lead Agency efforts to Tackle the Climate Crisis," press release, May 10, 2021.

[35] Interagency responsibilities were originally carried out by an Office of Strategic Initiatives under the Trump Administration, which the Biden Administration absorbed into the Office of Development Policy. DFC OIG, *Top Management Challenges Facing DFC in 2021*, p. 4.

[36] DFC, *Coordination Report*, 2019, pp. 9, 11. This unit also assumed management of the DCA portfolio and inherited similar programmatic responsibilities.

[37] This unit largely inherited OPIC's portfolio relating to its financing and political risk insurance activities.

[38] These offices include the Office of Information Technology, the Office of Financial and Portfolio Management, the Office of Administration, the Office of External Affairs, and the Office of General Counsel.

[39] A USAID-DFC coordination plan (22 U.S.C. §9682(c), Sec. 1462(c) of the BUILD Act), among other structural requirements, detailed these coordination approaches in full.

[40] DFC, *Coordination Report*, 2019, pp. 5-6. The executive branch has been involved in further issue-specific interagency bodies in DFC programs, such as assigning the National Security Council to coordinate activities in fragile states and establishing a USAID-based Executive Secretariat for the Prosper Africa initiative.

[41] Sec. 1470(e) of the BUILD Act.

Additionally, DFC must consult at least annually with the U.S. Trade Representative (USTR) on countries' eligibility for DFC support based on compliance with international trade obligations.[42]

Two additional oversight offices report directly to the Board:

- The *Office of Inspector General (OIG),* organized in August 2020, conducts audits, investigations, and reviews of DFC operations.[43]
- The *Office of Accountability*, created in September 2020, assists in resolving disputes between DFC and project-affected parties; is to report annually on DFC compliance with agency policies; and provides advice on DFC operations.[44]

The agency also maintains several advisory units (see "Risk Management").

Authorization and Maximum Contingent Liability

The BUILD Act authorized DFC for seven years after the date of its enactment, October 5, 2018.[46] DFC as a whole is to terminate on the date on which its portfolio is liquidated.[47] For DFC to continue exercising its authorities beyond its termination date, Congress would have to renew DFC's authority.

DFC has a statutory cap of $60 billion on its *maximum contingent liability (MCL)* at any one time for its investment support.[48] Also often referred to as DFC's "exposure cap" or "investment cap," the MCL is double that of OPIC ($29 billion).[49]

Select Product Features

Fees-Based. DFC charges interest, premia, and other fees for its support. It must set fees or premia at levels that minimize U.S. government cost while supporting DFC goals.

Demand-Driven. Usage of DFC services depends on alignment with commercial interests, but the agency seeks to attract applications by issuing sector-specific calls and applications in areas aligned to its development priorities.

Co-financing. DFC seldom fully finances a project itself—typically financing up to 50% of most projects, and up to 80% for well-established, low-risk efforts, in part to promote private investment and ensure additionality.[45]

Limited Exposure. By statute, no entity receiving DFC support may receive more than an amount equal to 5% of DFC's exposure cap ($3 billion of $60 billion).

Products

Under the BUILD Act, DFC assumed several authorities of OPIC (financing, insurance, special projects) and USAID (technical assistance, enterprise funds), and also acquired new authorities (e.g., equity investment, feasibility studies)—summarized below (see also **text box**, above).

[42] 22 U.S.C. §9671(c); Sec. 1451(c) of the BUILD Act.

[43] By contrast, the USAID OIG conducted oversight of OPIC.

[44] The office resolves complaints through either mutual problem-solving or a compliance review. Whether its statutorily required annual compliance report will be issued publicly remains to be seen. DFC Board of Directors, *Independent Accountability Mechanism for the U.S. International Development Finance Corporation*, DFC, BDR(20)45, September 9, 2020.

[45] DFC, DFC Finance Program FAQs, p. 4.

[46] 22 U.S.C. §9624(a); Sec. 1424(a) of the BUILD Act. In contrast to DFC, in recent years, Congress generally authorized OPIC on a year-to-year basis in appropriations law. OPIC's last longer-term, stand-alone reauthorization was in December 2003 for nearly four years (P.L. 108-158).

[47] 22 U.S.C. §9624(b); Sec. 1424(b) of the BUILD Act.

[48] 22 U.S.C. §9633; Sec. 1433 of the BUILD Act.

[49] In general, this report will use the terms "exposure cap" to refer to the statutory maximum contingent liability (MCL).

Direct Loans and Loan Guarantees

DFC inherited OPIC's authority to extend debt financing for investment projects through *direct loans* and *loan guarantees*.[50] These products may provide liquidity, mitigate the actual or perceived risks of investing, and improve commercial financial terms for certain projects.

DFC generally provides financing of up to $1 billion and for terms between 5 and 25 years, subject to federal credit law and other requirements.[51] DFC financing generally is to be on a senior basis (i.e., paid first, on an equal footing with other senior debt). Financing may be denominated and repayable in either U.S. dollars or foreign currencies on a case-by-case basis.[52]

DFC can provide *direct loans* to clients who lack a funding source of their own and require DFC to arrange physical disbursement of funds. DFC disburses funds directly from the U.S. Treasury and lends them to an eligible borrower. The interest rate generally is a fixed base rate provided by the U.S. Treasury plus a risk premium. DFC also provides direct loans in the form of *investment guarantees funded by certificates of participation (COPs)* in the U.S. fixed income debt capital markets. The interest rate for this funding is a floating base rate pegged to various U.S. Treasury securities or possibly another internationally accepted rate, plus a risk premium.

DFC also can provide *loan guarantees* to clients that have an independent funding source or are themselves independent funding sources (e.g., financial institutions) but are unable to provide funding without risk mitigation by DFC. Parties must bear a risk of loss of a minimum of 20% of the guaranteed support. The interest rate is a fixed or floating rate negotiated with the third party lender, such as a commercial bank, plus a risk premium. These guarantees can be for single projects (e.g., construction of a power generation facility, or securitization of a mortgage-backed bond), or for portfolio facility guarantees through which the third-party lender provides financial products to multiple borrowers. Portfolio facilities can take on a framework structure, where DFC underwrites each sub-borrower individually, typically for relatively large commitments, or a pooled structure, where the third-party lender extends the loan or leases to sub-borrowers, such as a large number of small borrowers in the case of a microfinance project.

Political Risk Insurance

DFC inherited OPIC's authority to provide *political risk insurance (PRI)* to mitigate the actual or perceived risks of investing overseas. DFC provides PRI coverage of up to $1 billion against losses due to political risks such as currency inconvertibility, expropriation and other government interference, and political violence (including terrorism).[53] DFC also offers *reinsurance* to licensed U.S. and international insurance companies to increase underwriting capacity in countries where investors face challenges securing PRI.

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[50] DFC also has been delegated loan authorities under the Defense Production Act (DPA, Title III, P.L. 81-774) to support the domestic response to the Coronavirus Disease 2019 (COVID-19) pandemic, pursuant to Executive Order (E.O.) 13922, *Delegating Authority under the Defense Production Act to the Chief Executive Officer of the United States International Development Finance Corporation to Respond to the COVID-19 Outbreak*, as issued on May 19, 2020.

[51] DFC, "Financing Terms and Processes," at https://www.dfc.gov/what-we-offer-our-products-debt-financing/financing-terms-and-processes.

[52] The ability to make repayments in foreign currencies is a new flexibility for DFC compared to OPIC, and it is allowed only in cases where there is a Board-determined "substantive policy rationale."

[53] See DFC, "Political Risk Insurance," at https://www.dfc.gov/what-we-offer-our-products/political-risk-insurance.

Initial terms for PRI are for 3 to 20 years. DFC aims to offer insurance to investors when private insurance is not available on terms sufficient to make the investment viable for the investor, or because of specific benefits DFC participation will afford the investment. DFC generally requires the insured and its affiliates to bear the risk of loss for at least 10% of the amount of DFC's exposure.[54]

Equity Investments

Unlike its predecessor, OPIC, DFC may provide *equity financing,* including to support early-stage businesses that may be unable to take on additional debt. According to DFC, direct equity as a financial tool provides the agency "with greater flexibility to invest in early and growth-stage companies, partner with other financial institutions, and enable investees to scale operations more efficiently to create greater development impact."[55]

DFC is subject to statutory exposure limits on equity investments—a per project limit of no more than 30% of the aggregate amount of all equity investment made in the project at the time of DFC approval, and a total limit on DFC's overall equity investments of no more than 35% of DFC's aggregate exposure on the date that such support is provided. While it is a minority investor, DFC also can be an active investor in shaping the company and the activity involved, including its development impact.

By statute, DFC is to develop guidelines and criteria to require that the use of equity authority has a "clearly defined development and foreign policy purpose," taking into account certain factors.[56] Conditions for DFC equity support include that the investment: "should address a market failure"; "would not happen or would be delayed without DFC support"; "should help transform local conditions" to promote market development; "should include commercial partners"; and should promote "significant developmental impact" and be designed to be "commercially sustainable."[57]

Investment Funds Support

DFC also supports *investment funds*, which are emerging market private equity funds operated by qualified fund managers and that make investments in private companies, an authority that it inherited from OPIC. While DFC treats its investment funds support as a distinct program, DFC's support for investment funds draws from its above-mentioned financing (typically in the form of a loan guarantee) and new equity authorities.

DFC was also given authority under the BUILD Act to create new *enterprise funds*, a type of joint venture capital fund previously administered under USAID, though it has yet to do so. The BUILD Act sets out specific parameters for enterprise funds' organization and management.[58]

Project Planning and Development Support

DFC may provide certain early-stage grant-based support for planning and developing projects. DFC may conduct *feasibility studies* and *technical assistance* (including related *training*) to

[54] DFC, "Political Risk Insurance: Details and Cost," at https://www.dfc.gov/what-we-offer-our-products-political-risk-insurance/political-risk-insurance-details-and-cost.

[55] DFC, "Equity Investments," at https://www.dfc.gov/what-we-offer-our-products/equity-investments.

[56] 22 U.S.C. §9614(c)(3); Sec. 1421(c)(3) of the BUILD Act.

[57] DFC, *Roadmap*, pp. 13-14.

[58] 22 U.S.C. §9621(g); Sec. 1421(g) of the BUILD Act.

support potential projects eligible for support—for example, to ensure that projects are viable from financial, technical, and regulatory perspectives. DFC must aim to require cost-sharing by those receiving funds "to the maximum extent practicable."[59]

DFC also may administer and manage *special projects and programs* to support specific transactions. This type of DFC support may include programs that provide financial and advisory support to help develop human resources, skills, technology, capital savings, or intermediate financial and investment institutions or cooperatives. DFC special projects and programs also may include incentives, grants, or studies for energy sector, women's economic empowerment, microenterprise households, or other small business activities.

After DFC determines its support, the grant recipient is to select a qualifying entity to perform the work. DFC also may provide technical assistance for certain development credit activities requested by other agencies by using a competitively selected pool of contractors.[60]

General Investment Project Cycle

DFC considers potential activities through a competitive application process (see **Figure 2**), the duration of which varies by application. Typically, applicants must have sought and failed to secure adequate financing from the private sector prior to soliciting DFC support, in order to ensure DFC support complements, rather than competes with, private financing. The agency may source applications through active links with external partners including private banks.[61] Applicants typically initiate that process by contacting a loan origination officer, who orients the applicant to DFC and obtains initial information on the proposed project. In the case of OPIC, a large share of U.S. development finance engagements historically, approximately 85%, stopped after this initial discussion.[62]

After that initial discussion, the applicant submits an application through DFC's forms dashboard.[63] The application details standard project information, such as project objectives, financial projections, audit statements, corporate capabilities, key personnel, other sources of financing, and efforts to have sought private sector financing, among other items.

The applicant may also express an interest in grant funding for a feasibility study, technical assistance, or training at the time of application or afterward. DFC evaluates and screens the application. If the screening is successful, the origination officer asks the applicant to complete

- *Personal Identification Forms* for all significantly involved parties, which DFC may use to conduct credit investigations of the submitting entity.
- An *Impact Assessment Questionnaire* that includes information to calculate the "Impact Quotient" and screen for environmental and social impact.

[59] 22 U.S.C. §9621(e)(2); Sec. 1421(e)(2) of the BUILD Act.

[60] DFC, "Technical Assistance and Feasibility Studies," at https://www.dfc.gov/what-we-offer-our-products/technical-assistance-feasibility-studies.

[61] See DFC, "A Guide to Partnering with U.S. International Development Finance Corporation."

[62] While exact figures on the volume and outcome of applications are not publicly available for DFC, OPIC staff estimated they prescreened 20,000 applications from 2000 to 2012, leading to 3,175 accepted applications over that period. U.S. Government Accountability Office (GAO), *Overseas Private Investment Corporation: Additional Actions Could Improve Monitoring Processes*, GAO-16-64, December 2015, p. 15.

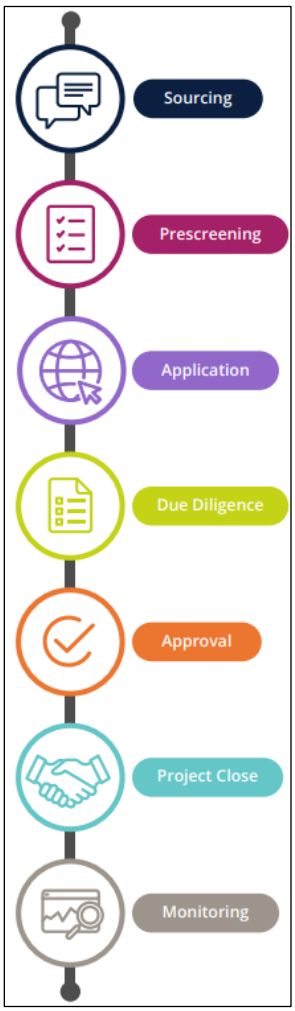
[63] The application portal and a walkthrough of this process are accessible at https://www.dfc.gov/apply.

After receiving these documents, the origination officer and a project attorney begin the credit underwriting process, including due diligence.[64] Concurrently, the Office of Development Policy considers clearances for environmental and social impact, development impact, human rights, worker rights, overall project evaluation, and due diligence. After these clearances are completed, a credit memo and term sheet are prepared for DFC management approval. The CEO can approve financing, political risk insurance, and equity projects under $50 million, and grant financing under $5 million. Larger projects require Board approval.[65]

After that approval, DFC officials negotiate and sign the agreement, and initial disbursement of funds may commence, if applicable. DFC applications are considered "confidential commercial information" and are not publicly accessible, although a public information summary is prepared for many projects at this stage.[66] Environmental and social impact assessments, when conducted, are also posted publicly, subject to DFC disclosure requirements.[67]

After full execution of the agreement, DFC monitoring and relationship management staff assume responsibility for project oversight. Officials may continuously evaluate the project's development impact performance and the effectiveness of its environmental and social impact protections, calibrating oversight to the level of risk—particularly for environmental impact.[68]

Figure 2. DFC Investment Cycle



Source: DFC, *A Guide to Partnering with U.S. International Development Finance Corporation.*

Select Statutory Provisions Governing DFC Support

This section provides an overview of the statutory provisions that govern DFC's project support. Many of these provisions are similar to those of OPIC, with some modifications.

DFC also operates under certain policies and procedures that it has set to implement its statutory obligations, including in its Environmental and Social Policy and Procedures (ESPP). Many of

[64] DFC may charge a retainer fee to defray costs of this step. See DFC, "DFC Finance Program FAQs," p. 5.

[65] DFC Board of Directors, "BDR(19)05_Delegation of Authority," June 12, 2019; DFC Board of Directors, "BDR(20)36 Delegation of Authority Technical Assistance," June 3, 2020.

[66] Summaries catalogued at https://www.dfc.gov/our-impact/all-active-projects.

[67] Summaries catalogued at https://www.dfc.gov/what-we-offer-eligibility-our-investment-policies/environmental-and-social-impact-assessments.

[68] DFC, "Developing DFC's New Development Performance Measurement System," July 2020, p. 10.

the statutory and policy provisions align with and may seek to operationalize DFC's core legislative purpose.

Country-Specific Provisions

Some provisions of the BUILD Act focus on features of the country or government that would host the proposed investment. Key among these are the following:

- In general, DFC must prioritize *low- and lower-middle-income economies*, as defined by the World Bank.[69] Support in upper-middle-income economies may be approved if development impact is forecast to be high and Congress receives certification that U.S. economic or foreign policy interests are at stake.[70] DFC is limited from investing in high-income countries, except for certain energy infrastructure projects in Europe and Eurasia.[71]
- Countries must have a *bilateral "investment incentive agreement"* with the United States that authorizes DFC support.[72] Presently, over 130 countries are eligible (see **Appendix**).[73]
- DFC must give preferential consideration to countries in compliance (or working to comply) with *international trade obligations*, and to countries embracing *private enterprise*.[74]
- Eligible countries' governments must be working toward meeting *internationally recognized worker rights*.[75]
- Eligible countries' governments may not have repeatedly supported *international terrorism*, and cannot have engaged in consistent patterns of gross violations of internationally recognized *human rights*, as determined by the Secretary of State.[76]

Project-Specific Provisions

The BUILD Act also established certain factors to apply to each project application, including

[69] 22 U.S.C. §9612(c)(1); Sec. 1412(c)(1) of the BUILD Act. World Bank country income classifications at https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups.

[70] 22 U.S.C. §9612(c)(2); Sec. 1412(c)(2) of the BUILD Act. Specifically, DFC must restrict its support in a less-developed country with an "upper-middle-income economy" unless (1) the President certifies to Congress that such support furthers U.S. national economic or foreign policy interests; and (2) such support is designed to have "significant developmental outcomes or provide developmental benefits to the poorest population of that country." The President delegated authority for the upper-middle-income determination to the Secretary of State. See Executive Office of the President, "Delegation of Authority Under the Better Utilization of Investments Leading to Development Act of 2018, dated July 7, 2020," 85 *Federal Register* 45749, July 29, 2020. DFC internal policies state that upper-middle-income country projects must receive an Impact Quotient score of 112.5 or above, the threshold for "highly developmental," address key agency priorities, or have significant U.S. involvement. DFC, "DFC Finance Program FAQs."

[71] See European Energy and Security Diversification Act of 2019 (Div. P, Title XX, P.L. 116-94).

[72] 22 U.S.C. §9631(a); Sec. 1431(a) of the BUILD Act.

[73] See DFC, "Where We Work," at https://www.dfc.gov/what-we-offer/eligibility/where-we-work.

[74] The international trade obligation is at 22 U.S.C. §9671(c)(2); Sec. 1451(c)(2) of the BUILD Act. The private enterprise obligation is at 22 U.S.C. §9671(g); Sec. 1451(g) of the BUILD Act.

[75] 22 U.S.C. §9671(d); Sec. 1451(d) of the BUILD Act.

[76] 22 U.S.C. §9673(a); Sec. 1453(a) of the BUILD Act.

- Preference to projects *involving U.S. persons* (i.e., U.S. citizens or U.S. citizen-owned or -controlled entities).[77]
- Preference to projects involving *small business*.[78]
- Consideration of the potential impact on *women's economic empowerment*.[79]
- Consideration of "whether the project is sponsored by or substantially affiliated with any person taking or knowingly agreeing" to support *boycotting a country that is "friendly"* with the United States and is not already facing a boycott under U.S. law or regulation.[80]

The BUILD Act also restricts project support on certain grounds, including as follows:

- Prohibition on Board approval of any project that is likely to have "*significant adverse environmental or social impacts,*" unless the Board publishes an impact notification at least 60 days before approval.[81]
- *U.S. sanctions-related restrictions*, except to the extent otherwise authorized by the Secretaries of the Treasury or State.[82]

Other Agency Processes

DFC has established certain decision-making tools and processes pursuant to the BUILD Act.

"Impact Quotient" Diagnostic Tool

To assess applications against DFC's development mandate, DFC developed the "Impact Quotient" (IQ), a tool to provide a quantitative score indicating development impact.[83] IQ consists of three major pillars: *economic growth* is to measure the project's potential for expanding economic activity; *innovation* is to measure the project's potential to develop or scale new techniques and products; and *inclusion* is to measure the project's potential benefits to unrepresented or underserved people. Each pillar comprises one element of development impact and is aggregated into a single quantitative score.[84] Based on those scores, DFC classifies projects as "highly developmental," "developmental," or "indeterminate." Low-scoring projects may still be approved on the basis of DFC's foreign policy or economic objectives; in FY2020, 18 of the 61 approved projects did not score as "highly developmental." Throughout implementation, DFC intends to continue to measure and update IQ scores. Development results are to be measured against the initial IQ score, and performance evaluations may identify best practices for future investments. DFC is also to refine the IQ framework and implementation based on these results.

[77] 22 U.S.C. §9671(b); Sec. 1451(b) of the BUILD Act. OPIC had U.S. connection requirement, not a preference.

[78] 22 U.S.C. §9671(i); Sec. 1451(i) of the BUILD Act.

[79] 22 U.S.C. §9671(f); Sec.1451(f) of the BUILD Act.

[80] 22 U.S.C. §9671(h); Sec. 1451(h) of the BUILD Act (refers to any boycott described in 50 U.S.C. §4842(a); Sec. 1773(a) of the Export Control Act of 2018 (P.L. 115-232)). See Congress Brad Sherman, "Congressman Sherman Amendments to BUILD Act Help Align New Agency with Foreign Policy Goals," press release, May 9, 2018.

[81] 22 U.S.C. §9671(e); Sec. 1451(e) of the BUILD Act.

[82] 22 U.S.C. §9673(b) and (c); Sec. 1453(b) and (c) of the BUILD Act.

[83] This tool was mandated in 22 U.S.C. §9652; Sec. 1442(b) of the BUILD Act.

[84] DFC, "Developing DFC's New Development Performance Measurement System," July 2020. DFC organizes defines impact factors under "core," "ancillary," and "bonus" impacts.

Risk Management

DFC support is backed by the full faith and credit of the U.S. government. By statute, DFC must take into account the "economic and financial soundness" of applications. DFC may only issue loans or guarantees to responsible borrowers or lenders, on reasonable lending terms that protect the U.S. financial interest. It also must prescribe explicit standards for use in periodically assessing the credit risk of new and existing direct loans or guaranteed loans.

DFC has portfolio concentration limits and seeks to diversify its overall exposure to manage risk. No single entity may comprise more than 5% of DFC's exposure. For equity investments, DFC has a per project limit of no more than 30% of the aggregate amount of all equity investment made in the project at the time of DFC approval, and a total limit of no more than 35% of the DFC's aggregate exposure on the date that such support is provided (see "Products").

DFC is directed to mitigate risks to U.S. taxpayers by sharing risks with the private sector and qualifying sovereign entities through co-financing and structuring of tools. The BUILD Act established a Risk Committee and an Audit Committee, each composed of a subset of Board members, to manage, respectively, the agency's risk and financial performance. DFC is required to share risk-of-loss for loan guarantees and political risk insurance for recipients of these forms of support, and share costs with recipients of technical assistance (see "Products"). Before making payments on defaults on the loans that it guarantees, DFC may require the loan holder to make further collection efforts and institute enforcement proceedings.

Transparency and Accountability

DFC has certain statutory responsibilities to engage both Congress and the public about its activities and policies. Congressional notification and reporting obligations are primarily to the House Foreign Affairs, House Appropriations, Senate Foreign Relations, and Senate Appropriations Committees. For instance, the CEO must notify the committees of individual financial commitments above $10 million no later than 15 days before execution.[85] DFC must also submit an annual report to the committees assessing the economic and social development impact of the projects that it supports, the relationship between DFC operations and development assistance programs, DFC's institutional linkages within the U.S. government, and the compliance of DFC-supported projects with human rights, environmental, labor, social, and other related policy requirements. For FY2020, DFC published an annual management report and an annual report, which included a discussion of policy compliance. For FY2021, DFC has published an annual management report but not an annual report to date.[86]

Congress also established several measures to facilitate public access to information about DFC. The DFC Board must hold two public hearings each year. DFC must also maintain a public, machine-readable database of its projects and share country-level performance metrics.[87] A separate DFC database compiles environmental and social impact assessments, as applicable.[88] DFC must maintain a corporate transparency policy and a Board public engagement policy, but DFC assessed itself not to be subject to other government public information requirements.[89]

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[85] The CEO also must notify Congress of newly agreed bilateral agreements no later than 30 days after execution.

[86] DFC reports can be found at https://www.dfc.gov/who-we-are-transparency/reports.

[87] See DFC's "Active Projects" online database, at https://www.dfc.gov/our-impact/all-active-projects.

[88] DFC, ESPP, p. 10.

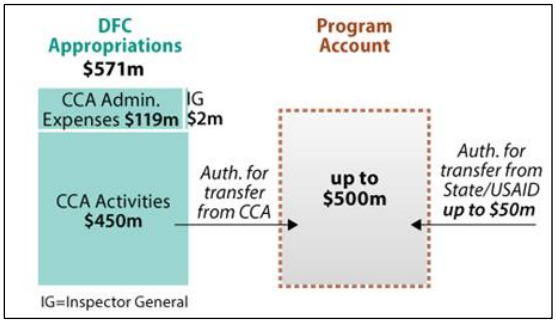
[89] See DFC, "Transparency Policy—Draft," November 2020; DFC, "DFC Board of Directors Public Engagement Policy," November 2020; DFC, "Sunshine Act Regulations," 85 *Federal Register* 20423, April 13, 2020; and Adva Saldinger, "Environmental Groups Sue US DFC Over Open Meetings Exemption," *Devex*, June 3, 2021.

Key Recent Developments

Funding

As set forth in the BUILD Act, DFC is funded through a Corporate Capital Account (CCA) comprised of fees, interest, returns on investments, and transfers of unexpended balances from predecessor agencies. Congress appropriated funds to DFC in its first two years to assist the new agency in scaling up its operations, in accordance with its greater financing authority. DFC annual funding from Congress may designate a portion of CCA collections to be retained for agency operations.

Figure 3. DFC Funding, FY2021



Source: CRS, based on Consolidated Appropriations Act, 2021 (P.L. 116-260).

Like OPIC historically did, DFC contributed funds to the Treasury in its first two years of operations—$232 million in FY2020 and $162 million in FY2021. Unlike OPIC, however, DFC does not have a statutory mandate for revenue to exceed costs. DFC did not budget to be self-sustaining in FY2021 or FY2022.[90] As a result, Congress appropriated $569 million to DFC in FY2021 (**Figure 3**), an increase from $299 million provided in FY2020, its first year of operation. Of that amount, $119 million was made available for administrative expenses and $450 million for activities including equity investments and for transfers to the "program account," a separate funding account through which DFC implements most of its lending and insurance programs. While $569 million was provided, Congress directed that collections should offset provided funds such that the fiscal cost of appropriated funds would ultimately total $191 million. Congress also granted USAID and the State Department authority to transfer a portion of their funds to the program account for activities that support their projects.[91]

The Biden Administration's FY2022 budget request included $598 million for DFC: $148 million for administrative expenses and $450 million for programs. The proposal would give DFC flexibility to allocate across equity, debt financing, insurance, technical assistance, and grant activities. The request would maintain the FY2021 appropriated amount for program activities. It reflects a $250 million (35.7%) reduction from the Trump Administration's FY2021 request of $700 million. The request for administrative expenses, at $148 million, would be a 21.7% increase over FY2021 appropriations and a 10.7% increase from the FY2021 request. An additional $2.8 million is proposed for the IG (**Table 1**). FY2022 appropriations have yet to be enacted.

[90] DFC, *CBJ FY2022,* p. 6. Unlike OPIC, DFC no longer has a statutory mandate to be self-sustaining.

[91] Table 2 includes the sources for this funding overview.

Table 1. OPIC/DCA/DFC Requests and Appropriations, FY2019-FY2022

Current millions USD

	OPIC	DCA	DFC	DFC	DFC	DFC	DFC
	FY2019 Enacted	*FY2019 Enacted*	*FY2020 Request*	*FY2020 Enacted*	*FY2021 Request*	*FY2021 Enacted*	*FY2022 Request*
Administrative Expenses	$79.2	$10.0	$98.0	$119.0	$133.7	$119.0	$148.0
Inspector General	—	—	$2.0	$2.0	$2.0	$2.0	$2.8
Activities	$20.0	$55.0	$200.0	$180.0	$700.0	$450.0	$450.0
Credit/TA/Trans. Costs	*$20.0*	*$55.0*	*$50.0*	*$150.0*	*n/a*	*n/a*	*n/a*
Equity	—	—	*$150.0*	*$30.0*	*n/a*	*n/a*	*n/a*
State/USAID Transfers	($454.0)	n/a	n/a	($50.0)	($50.0)	($50.0)	($50.0)
Offsetting Collections	($454.0)	n/a	($425.0)	($561.0)	($496.0)	($450.8)	($472.4)
Total After Offsets	**($808.8)**	**$65.0**	**($125.0)**	**($310.0)**	**$289.7**	**$70.2**	**$78.4**

Source: State Dept. Congressional Budget Justifications; P.L. 116-6; P.L. 116-94; P.L. 116-260.

Notes: Credit: DFC direct loans and loan guarantees; TA: Technical assistance; Trans. Costs: transaction costs. Red denotes a credit against DFC's funding.

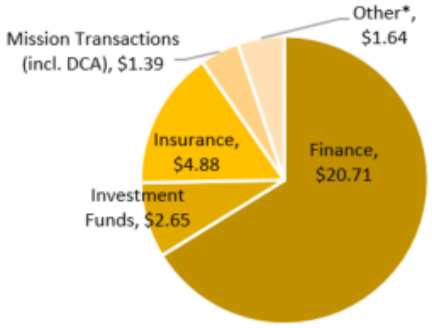
DFC Active Portfolio

In FY2021, its second fiscal year of operations, DFC added new commitments of $6.8 billion investment projects, a 42% increase from FY2020 ($4.8 billion). DFC's exposure reached $32.8 billion in FY2021, a 10% increase from FY2020 ($29.7 billion). DFC's FY2021 exposure took up a little more than half of the agency's maximum allowable exposure of $60 billion.[92]

The following is an analysis of DFC's active portfolio as of June 30, 2021—the latest publicly available, machine-readable data on DFC's project activity, as of the report's publication date.[93]

Figure 4. DFC Portfolio by Investment Type

Billions USD, as of June 30, 2021



Source: CRS, based on data from https://www.dfc.gov/who-we-are/transparency-and-accountability, accessed 11/17/21.

Notes: "Other" includes legacy and redacted activities. "Finance" includes loans and guarantees.

DFC's active portfolio is primarily composed of agreements inherited from its predecessor, OPIC. As of June 30, 2021, 72.0% ($22.4 billion) was transacted in FY2019 or earlier—prior to DFC's establishment (**Figure 4**). By financing type, the balance of new projects approved appears to largely track historical trends, with DFC-committed loans and loan guarantees comprising 71.8% of total exposure, similar to the pre-DFC, currently active portfolio rate of 64.0%. Despite a new statutory restriction on investing in upper-middle-income countries under the BUILD Act, the

[92] DFC, *Annual Management Report* for FY2020 and FY2021.

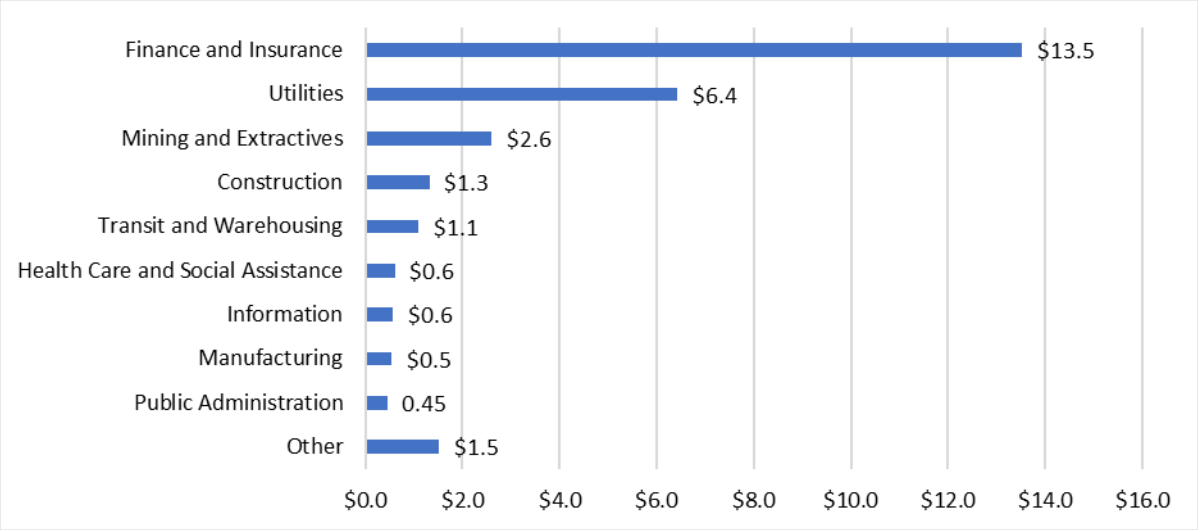
[93] CRS analysis of data from DFC, "Data on DFC Projects" at https://www.dfc.gov/who-we-are/transparency-and-accountability.

balance of DFC's portfolio in low-income and lower-middle-income countries was little changed from OPIC's as of September 2020 (the latest date available).[94]

By sector, "finance and insurance" is the largest single category of projects (**Figure 5**), although a large share of those projects include investments across sectors—such as small- and medium-sized enterprises (SME) lending, which may operate in a range of economic areas. DFC's active portfolio of FY2020-2021 projects totaled $8.85 billion as of June 30, 2021, bringing its exposure from $25.7 billion as of the end of FY2019 (OPIC's last full fiscal year of operation) to $31.3 billion as of June 30, 2021—slightly more than half of its exposure cap.[95] DFC had projects in 107 countries, with a country-level exposure over $400 million in each of 21 countries (**Table 2**). DFC has also approved a relatively small number of projects utilizing new authorities, including technical assistance and equity investment.

Figure 5. DFC Active Projects by Sector

By total exposure, billions USD, data through June 30, 2021



Source: CRS, based on data from DFC at https://www.dfc.gov/who-we-are/transparency-and-accountability, accessed 11/17/21.

Notes: Investment funds are not included as no sector breakdown is available for those investments.

Some of DFC's largest commitments to date investments have been in the oil and natural gas sector, as was the case under OPIC. A set of commitments in FY2020 to finance natural gas projects in Mozambique, valued up to $1.7 billion, represents DFC's single largest commitment to date. Those types of investments have continued in FY2021 with financing for projects such as a fossil fuel-fired power plant in Sierra Leone.[96] DFC also has funded several large-scale telecommunications projects, including in the Indo-Pacific, Southern and East Africa, and Eastern Europe.

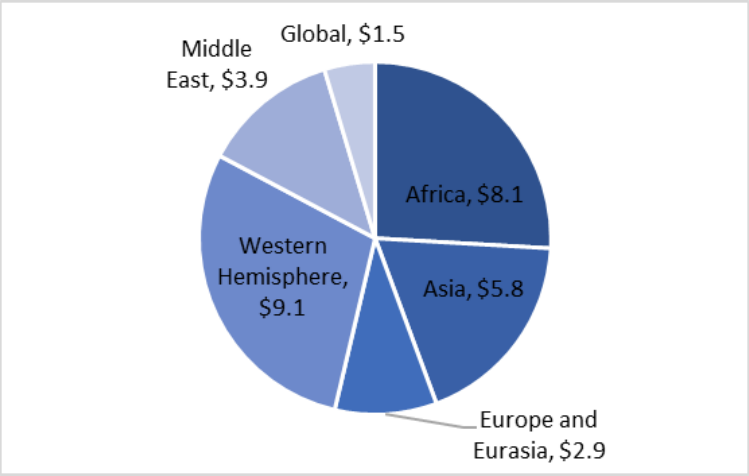
[94] DFC reported 66% of its projects were in low-income, lower-middle-income, and fragile states as of September 2020. OPIC's portfolio comprised 59% in low-income and lower-middle-income countries at the time of its closure.

[95] OPIC, *FY2019 Annual Management Report*, November 14, 2019, p. 1. Total new exposure does not equal total new investments as certain OPIC investments were closed out.

[96] For information on the fuel source, see https://www3.dfc.gov/Environment/EIA/ceca/Initial_Project_Summary.pdf.

Table 2. DFC Active Projects by Region and Top Countries

By total exposure, billions USD, data through June 30, 2021



Country	Total Exposure
India	$2.3
Mozambique	$1.7
Egypt	$1.3
Brazil	$1.3
Colombia	$1.2
Pakistan	$1.2
Turkey	$1.2
Mexico	$1.1
South Africa	$1.0
Ghana	$1.0

Source: CRS, based on data from DFC at https://www.dfc.gov/who-we-are/transparency-and-accountability, accessed 11/17/21.

Initiatives and Priorities

Under the Trump Administration, in 2020, DFC released its inaugural development strategy, the *Roadmap for Impact*, which sets its development impact targets, sectoral priorities, and select cross-cutting themes of DFC programming through December 2025. Sectors appear to be expansively defined: housing, for instance, is cited as one type of technology and infrastructure project (see **Table 3**). Many of these priorities are incorporated in Impact Quotient metrics, and certain cross-cutting themes include impact targets, such as reaching 12 million women and supporting 100,000 new host-country jobs.[97]

Table 3. DFC *Roadmap for Impact* (2020) Overview

Priority Sectors	Cross-Cutting Themes
Energy	Innovation
Healthcare	Financial Systems Strengthening
Financial Inclusion	Protecting Workers
Food Security and Agriculture	Sustainable Job Creation
Technology and Infrastructure	Women's Economic Empowerment
Water, Sanitation, and Hygiene	Bolstering Manufacturing and Global Supply Chains
	Empowering U.S. and Local Businesses

Source: CRS, based on DFC, *Roadmap for Impact*, October 2020.

Notes: DFC is revising the *Roadmap*.

[97] DFC, *Roadmap*, p. 6; DFC, "Developing DFC's New Development Performance Measurement System," July 2020, pp. 5-8.

DFC supports several U.S. government multi-agency initiatives. DFC is a core participant in Power Africa, a USAID-led initiative to add 30,000 megawatts of energy and 60 million connections in Sub-Saharan Africa by 2030.[98] The CEO also chairs Prosper Africa, an initiative to expand two-way trade between African countries and the United States,[99] and supports the National Strategy on Gender Equity and Equality through the DFC 2X Women's Initiative—an initiative launched under OPIC that targets women-owned or operated businesses and products or services that empower women.[100] DFC also works to set international standards for both infrastructure and development finance, such as through the Blue Dot Network (see **text box**).

Blue Dot Network

The Blue Dot Network is a multi-stakeholder initiative "to promote quality infrastructure investments by certifying that projects are market-driven, socially and environmentally responsible, financially sustainable, transparent and accountable, and open and inclusive."[101] The Overseas Private Investment Corporation (OPIC) originally launched the initiative with Australia's Department of Foreign Affairs and Trade (DFAT) and the Japan Bank for International Cooperation (JBIC) in November 2019. The Department of State has represented the U.S. government in recent Blue Dot discussions.

The Biden Administration mentioned an "updated" Blue Dot Network as part of efforts to advance its new Build Back Better World (B3W) initiative, led by the Group of Seven (G-7) to support infrastructure needs in the developing world that have been exacerbated by the Coronavirus Disease 2019 (COVID-19) pandemic. In June 2021, an Executive Consultation Group led by the Organisation for Economic Co-operation and Development (OECD) was launched to support the design process for the Blue Dot Network certification framework.[102]

DFC has launched several other in-house initiatives, including

- *Connect Africa* to expand telecommunications access across Sub-Saharan Africa;
- the *Portfolio for Impact and Innovation (PI^2)* to give seed funding to potentially high-impact early-stage innovators; and
- the *Health and Prosperity Initiative*, in the wake of the COVID-19 pandemic, to improve resilience to public health crises with strengthened health systems.

DFC is also working through the DFI Alliance, a group of OECD member state DFIs, to respond to the consequences of the COVID-19 pandemic.[103]

The Biden Administration has signaled new priorities that differ from those in the *Roadmap*. The Administration's FY2022 Congressional Budget Justification (CBJ) highlights five overarching priorities: climate, health, gender equity, inclusive growth, and information and communications technology. It also notes regional focus areas of Africa, Southeast Asia, and the Northern Triangle of Central America. Notably missing from the priorities is energy, which may be a result of the

[98] Power Africa is authorized under Electrify Africa Act of 2015 (P.L. 114-121). For further information, see CRS Report R43593, *Powering Africa: Challenges of and U.S. Aid for Electrification in Africa*, by Nicolas Cook et al.

[99] See CRS In Focus IF11384, *The Trump Administration's Prosper Africa Initiative*, by Nicolas Cook and Brock R. Williams.

[100] DFC, "DFC Support for the National Strategy on Gender Equity and Equality," press release, October 29, 2021; DFC, "2X Women's Initiative, at https://www.dfc.gov/our-work/2x-womens-initiative.

[101] DFC, "Blue Dot Network," https://www.dfc.gov/our-work/blue-dot-network, accessed 12/30/21.

[102] DFC, "The Launch of Multi-Stakeholder Blue Dot Network," press release, November 4, 2019; the White House, "FACT SHEET: President Biden and G7 Leaders Launch Build Back Better World (B3W) Partnership," press release, June 12, 2021; and OECD, "OECD and the Blue Dot Network," at https://www.oecd.org/corporate/oecd-and-the-blue-dot-network.htm.

[103] DFC, "Development Finance Institutions Join Forces to Respond to COVID-19 in Developing Countries," press release, April 6, 2020.

Administration's planned reorientation of DFC investments toward a government-wide climate financing effort. To this end, the Administration announced both a net zero emissions target for DFC by 2040 and its intent for one-third of all new projects to be climate-linked by 2023.[104] DFC announced it will revise the *Roadmap* to add climate finance as a focus, in part to integrate these new priorities into agency decision-making.[105] As an initial step, the agency released a narrower climate action plan focused on resilience and adaptation efforts.[106]

Selected Comparisons of Development Finance Institutions (DFIs)

DFC has many foreign bilateral DFI counterparts. While some information on these various entities is available through the foreign DFIs, the lack of official, comprehensive standards and reporting for development finance can complicate efforts to make authoritative comparisons. This is particularly a challenge with respect to China.[107] Datasets developed by nongovernmental groups (e.g., think tanks and consulting firms) have attempted to track and tabulate China's overseas economic activities but face a number of limitations; such datasets remain widely cited in the absence of alternatives. Comparisons with China are also challenging because its activities may not necessarily be considered traditional assistance or fully commercial activity.[108] This section provides a summary of selected comparisons among DFC and foreign bilateral DFIs.[109]

Like DFC, most bilateral DFIs are wholly owned by their national governments, though some incorporate private shareholders. Some countries, such as Japan, also house both development finance and export financing functions in a single entity. The United States—with DFC as distinct from the Export-Import Bank (Ex-Im Bank)—does not.

DFC and many other DFIs pursue foreign policy, commercial, environmental, and other policy goals alongside development impact. They may also measure development impact quite differently—such as attributing only direct project impacts like jobs created or supported, as in the case of DFC and a number of European DFIs, or possible indirect macroeconomic effects like reduction in poverty.[110]

DFIs typically offer a suite of financial products, but they may vary in how extensively they use specific products. Equity support dominates some DFIs' activities, while loans dominate other DFIs' activities. Political risk insurance and project planning support also feature in some DFIs' activities. The addition of equity authority and technical assistance capabilities to DFC's toolkit brings DFC more in line with European counterparts.

DFI portfolios also vary by regional and sectoral focus. Many DFI portfolios comprise less-developed countries, but they may prioritize their limited resources for a specific region—for instance, Finland's DFI focuses on Latin America and Africa, and the United Kingdom's DFI

[104] DFC, *Congressional Budget Justification Fiscal Year 2022*, May 2021, p. 2.

[105] DFC, "DFC Commits to Net Zero by 2040, Increases Climate-focused Investments," press release, April 22, 2021,

[106] DFC, *Climate Action Plan Under Executive Order 14008*, September 2021.

[107] CRS Report R46302, *Tracking China's Global Economic Activities: Data Challenges and Issues for Congress*, by Andres B. Schwarzenberg.

[108] Ibid.

[109] Based on annual report and websites of foreign DFIs.

[110] Alberto F. Lemma, *Development Impact of DFIs: What Are Their Impacts and How Are They Measured?*, Overseas Development Institute, February 2015.

focuses exclusively on Africa and South Asia. While more than 130 countries around the world are eligible for DFC's support, the agency's portfolio is particularly balanced toward the Western Hemisphere, followed by Africa. For some DFIs, including DFC and its predecessor, infrastructure projects and financial services have been prominent.

DFIs differ in total portfolio size and the scale of investment. DFC's portfolio and annual activity are greater than a number of DFIs, but are small compared to China's financing activity.[111]

- **Europe.** In 2020, the 15 individual national DFIs that are members of the Association of European Development Finance Institutions (EDFI) had a combined portfolio of €43.8 billion ($53.6 billion) and combined new 2020 investments of €7.5 billion ($9.2 billion)—nearly double DFC's FY2020 portfolio ($29.7 billion) and new investment commitments ($4.8 billion).[112] While individual EDFI members vary among each other in their portfolio composition, the combined EDFI members' 2020 portfolio had its largest concentration, by region, in Africa, and by sector, in financial services.[113]
- **China.** China's overseas development finance activity has expanded dramatically since OBOR was launched in 2013. By one estimate, when looking at official development assistance and a variety of other flows, between 2000 and 2012, the annual commitments of China and the United States were $32 billion and nearly $34 billion, respectively.[114] In contrast, between 2013 and 2017, China's spending ($85.4 billion a year, on average) in these categories was estimated to be more than double U.S. spending ($37 billion a year, on average).[115] China's OBOR-related commitments have been regionally focused on Africa, and sectorally oriented toward extractive industry mining and construction, energy, and transport and storage.[116] These activities may be motivated to secure benefits to China's economy. Based on another estimate, between 2013 and 2019, China's lending commitments by the China Development Bank (CDB) and the Export-Import Bank of China are estimated to have totaled about $282 billion.[117] As context, between FY2013 and FY2019, OPIC's new commitments were about $27 billion and Ex-Im Bank's new authorizations were about $80 billion.[118]

DFIs of different countries may co-finance projects to mitigate investment risks, increase liquidity, and advance shared interests. For example, DFC and the Netherland's DFI are co-financing a $75 million facility to bring liquidity to financial intermediaries to support smaller

[111] For more information on issues related to comparisons, see CRS Report R46302, *Tracking China's Global Economic Activities: Data Challenges and Issues for Congress*, by Andres B. Schwarzenberg.

[112] Based on data from Association of European Development Finance Institutions (EDFI), "Facts and Figures," at https://www.edfi.eu/members/facts-figures/; DFC, FY2020 annual report. Euro values converted to U.S. dollars, based on a December 31, 2020 exchange rate of 1.2230 U.S. dollars per euro, U.S. Federal Reserve.

[113] Based on data from EDFI, "Facts and Figures," at https://w.ww.edfi.eu/members/facts-figures/.

[114] William & Mary's Global Research Institute, AidData, at https://www.aiddata.org/. See AidData, "Banking on the Belt and Road: Insights from a New Global Dataset of 13,427 Chinese Development Projects," September 29, 2021.

[115] Ibid.

[116] AidData, "Banking on the Belt and Road: Insights From a New Global Dataset of 13,427 Chinese Development Projects," September 29, 2021, pp. 18, 25.

[117] Boston University Global Development Policy Center, Global China Databases, at https://www.bu.edu/gdp/research/databases/global-china-databases/. See also Global Development Policy Center, *Database Methodology Guidebook*, March 23, 2021.

[118] Based on OPIC and Ex-Im Bank annual reports for relevant years.

businesses affected by COVID-19.[119] National DFIs also may co-finance projects with multilateral partners. For instance, certain European DFIs plan to co-finance projects with the International Finance Corporation (IFC) to support economic recovery from COVID-19.[120] Many DFIs also are increasingly collaborating with their national export credit agencies (ECAs) to provide joint financing packages. DFIs may be able to bring financing features that some ECAs lack (e.g., equity-related support and local currency financing), helping "move a project across the finish line."[121]

Issues for Congress

DFC presents a number of issues before Congress, including with respect to the agency's authorities and programs, policies, risk management and sustainability, and relationships and coordination with U.S. government and international partners. This section addresses some issues that may be of particular interest to the 117th Congress.

Composition and Treatment of DFC Authorities

The BUILD Act added a number of authorities and approaches to DFC's toolkit when compared to OPIC, and the development finance field has experienced considerable innovation in the recent past. As a result, DFC's programmatic approach and management of its lending portfolio may provoke discussion for policymakers.

Budgetary Treatment of Equity Authority

Supporters of DFC's new equity authority say it gives the U.S. government a critical tool that DFIs of other OECD member states already possess and that it may facilitate joint investments with such partners.[122] Granting equity authority for U.S. development finance previously faced resistance from some Members of Congress who seemingly were uncomfortable with the possibility of government interfering with private companies and were concerned about investment risk.

A chief debate since the enactment of the BUILD Act has been over budgetary "scoring" approaches that could affect the scale of DFC's equity investments.[123] The Congressional Budget Office (CBO), the Office of Management and Budget (OMB), and DFC itself currently score equity investments as an outlay, only recording revenue on such investments when the stake is sold—an approach termed "cash basis"—rather than accounting for expected future returns upon making a financial commitment. Loans and loan guarantees are scored by "net present value" scoring under the Federal Credit Reform Act of 1990 (FCRA, P.L. 101-508), which measures

[119] DFC, "DFC and FMO Launch $75 Million Co-Financing Facility to Boost COVID-19 Response in Developing Countries," press release, May 20, 2021.

[120] International Finance Corporation (IFC), "IFC, Proparco Join Efforts to Maximize Development Impact and Accelerate COVID-19 Recovery," press release, May 5, 2020; and IFC, "IFC, DEG Join Efforts to Maximize Development Impact and Accelerate COVID-19 Recovery," press release, May 5, 2020.

[121] Export-Import Bank, *Report to the U.S. Congress on Global Export Credit Competition*, June 2021, p. 33.

[122] DFC makes this argument in its FY2020 CBJ. DFC, *CBJ FY2020*, p. 9.

[123] Adva Saldinger, "2 Months Until Launch, How is the New US DFI Shaping Up?," *Devex*, July 30, 2019. Contrary to some characterizations, Congressional Budget Office (CBO) expected that future revenues would be realized as a credit against the investment outlay, but it expected such returns would occur only after its 10-year forecast horizon. CBO, "Cost Estimate: H.R. 5105, BUILD Act of 2018," July 9, 2018, p. 6. DFC, *CBJ FY2020*, p. 9.

both the financial cost and expected returns in the same fiscal year. DFC must only maintain sufficient resources to cover expected losses, rather than the total value of the investment. By contrast, equity investments require funding for the full investment value to be set aside, which requires significantly more budget authority. Many in the development community argued that this treatment was tantamount to scoring equity investments like grants rather than financing and discouraged DFC's use of equity by increasing the cost of equity investments compared to loans and guarantees.[124]

While many have called for reform, stakeholders have contested the precise remedy. Some argue that OMB must revise its policies to allow net present value for equity investments. Others argue that a legislative fix is necessary—the BUILD Act specifies that loans and guarantees should be subject to FCRA, but it does not have a similar specification for equity investments.[125] Congress is considering legislation that would address the issue (see "Pending Legislation").[126]

Sovereign Loan Guarantees and Enterprise Funds

The White House provided an agency reorganization plan to Congress in 2019 that also addressed other potential DFC functions. While the plan enabled DFC to launch, it did not finalize several reorganization decisions that the BUILD Act left to the discretion of the executive.[127] Two USAID functions remain pending for potential transfer to DFC—the BUILD Act authorized the transfer of these functions, but the Trump Administration deferred making a decision on whether to exercise that reorganization authority. USAID's *Sovereign Loan Guarantees (SLG)* grant the full faith and credit of the United States to the repayment of partner governments' sovereign loans.[128] DFC deferred a decision on the transfer of this $21.0 billion portfolio from USAID to DFC, highlighting the burden against DFC's $60 billion exposure cap.[129] Separately, DFC is authorized to create new *Enterprise Funds*, independent investment funds that USAID pioneered in post-Communist Eastern Europe to seed a nascent private sector with investment capital. DFC determined to keep the three still in operation—in Egypt, Tunisia, and Ukraine—within USAID, but to establish and manage new funds itself, if warranted. Some have called for a "Third Wave" of enterprise funds in countries of geostrategic importance, to follow the first wave in Europe and the second after the Arab Spring.[130] It is unclear how a DFC-created Enterprise Fund would differ from investment funds established in partnership with private finance providers under separate authority. The DFC OIG is conducting an audit of DFC's implementation of BUILD Act provisions and may shed light on these and other issues.[131]

Relationship to Development Finance Tools at Other Agencies

Despite the consolidation of development finance programs into DFC through the BUILD Act, DFC programs comprise only a portion of the development finance activities in U.S. foreign assistance. Development experts have termed a broad range of tools as "blended finance"—a

[124] See e.g., Dan Runde, Romina Bandura, and Janina Staguhn, *The DFC's New Equity Authority,* April 2020.

[125] See Sec. 1421(b)(3) and Sec. 1421(c), respectively, in the BUILD Act.

[126] See S. 1260, Sec. 3219K; and H.R. 3524, Sec. 213.

[127] DFC, *Reorganization Report*, March 2019.

[128] Those governments are Israel, Tunisia, Jordan, Ukraine, and Iraq.

[129] DFC, *Reorganization Report*, March 2019.

[130] Daniel Runde and Romina Bandura, "Time for a Third Wave of Enterprise Funds," *Center for Strategic and International Studies*, August 2018.

[131] Letter from Anthony Zakel, DFC Inspector General, to Dev Jagadesan, Acting CEO, August 31, 2021.

pooling of capital between private and public sources to advance a joint interest.[132] USAID and the Millennium Challenge Corporation (MCC) continue to implement certain development finance activities. USAID implements certain concessional loan programs under the Tropical Forest and Coral Reef Conservation Act (P.L. 105-214, as amended).[133] Both USAID and MCC may participate in certain public-private partnership schemes similar to DFC financing activities.[134] Members of Congress seeking development finance tools to support their objectives may evaluate the respective competencies of agencies to address those objectives, including DFC's and those of other agencies.

DFC Footprint and Focus

Modification to Exposure Cap

Policymakers are considering whether to expand DFC's current exposure cap of $60 billion and, if so, for what purpose.[135] Raising the cap could allow DFC to expand its activities—legacy OPIC and DCA projects accounted for about half of DFC's exposure when the agency launched operations. Raising the cap also may help to mitigate potential trade-offs among regional, sectoral, or other policy goals, but doing so could raise concerns about the implications for U.S. taxpayers, depending on the risk profiles of projects under the potential added exposure. Some Members of Congress may seek to give DFC discretion in using its potential additional exposure. Other Members, however, may support specifying how DFC uses its potential additional exposure, such as by directing or limiting its use to a specific purpose or program (e.g., relating to countering China's development finance activities, promoting or restricting certain energy projects, or targeting specific regions for expanding DFC support), or only allowing use of that exposure if DFC attains certain targets for risk management or returns to protect U.S. taxpayer interests. An increase to DFC's exposure cap could have implications for the agency's level of resources, including requiring additional staff to manage greater project activity.

Country Income Requirement

Lawmakers continue to debate modifying DFC's current prioritization of less-developed countries and limitations on support for projects in upper-middle-income and high-income countries. Some favor such moves as a way to intensify use of DFC as a tool for strategic competition, while others raise questions about tensions with DFC's development mandate. A focal point has been debate over the merits of a 2019 law that enables DFC to support energy projects in certain European countries regardless of their income status, to help them diversify their energy sources away from Russia.[136] Similar legislation has been proposed in other areas. For instance, in the 117th Congress, H.R. 3344 would ease DFC's country income restriction to support projects to improve the security of telecommunications networks in Central and Eastern

[132] For further information, see OECD, *The OECD DAC Blended Finance Guidance*, 2021.

[133] See CRS Report RL31286, *Debt-for-Nature Initiatives and the Tropical Forest Conservation Act (TFCA): Status and Implementation*, by Pervaze A. Sheikh.

[134] USAID, "The Maternal and Newborn Health Development Impact Bond," November 30, 2018; DFC, "Cameroon Cataract Bond Records Successful First Year," press release, June 6, 2019.

[135] As elsewhere in the report, the term "exposure cap" refers to DFC's statutory "maximum contingent liability" cap. Legislation has been introduced in the 117th Congress, as part of broader policy initiatives to counter China, to raise DFC's exposure cap from $60 billion to $100 billion (S. 1169, H.R. 3524). Congress periodically debated and raised OPIC's statutory exposure cap.

[136] European Energy Security and Diversification Act of 2019 (Division P, Title XX, P.L. 116-94).

European countries to counter malign influences. Certain stakeholders have called for taking a similar approach to allow DFC to compete more effectively in a wider range of countries if they have the potential to have strategic benefits, such as countering Chinese investments.[137] By one measure, about one-third of OBOR participants are upper-middle-income economies.[138] (See "DFC Mandates and Effectiveness.")

Prioritization of and Restrictions on DFC Activities

Lawmakers at times seek to direct DFC to prioritize or limit activities in certain regions or sectors (see "Pending Legislation"). Members may examine the implications of how efforts to direct DFC's activities may align with actual private sector demand for DFC programming in those areas. Members also may examine opportunities for DFC to proactively conduct outreach about its offerings or to originate deals in priority areas. Additionally, policymakers may examine the competitiveness implications of directing DFC to support certain policies at the expense of others, or of restricting DFC support for certain activities. (See "DFC Mandates and Effectiveness.")

Modifications to DFC Policies

DFC policies guide its support for investment projects. Issues for Congress include how DFC may prioritize and modify these policies, and its transparency in doing so.

Environmental Safeguards and Climate Change

DFC inherited OPIC's environmental policies, which reflected a combination of countervailing congressional interests in combating climate change and expanding energy access in developing countries. FY2010 appropriations law mandated that OPIC produce a greenhouse gas emissions reduction plan, but FY2014 appropriations law provided an exemption to allow certain coal and other energy projects in lower-income countries—an exception that subsequent years' appropriations laws retained for OPIC. By inheriting OPIC's environmental policies, DFC retained that reduction plan and the exemption. In April 2021, the Biden Administration announced several new actions to both finance climate efforts and reduce emissions in DFC's investment portfolio (see "Initiatives and Priorities").[139] This heightened focus on climate change may renew the disagreements that led to these policies under OPIC. New emissions targets could conflict with the OPIC-era coal energy exemption, and the new climate emphasis may raise concerns that DFC is deprioritizing previously enacted congressional priorities, such as supporting European energy security and the Power Africa initiative. Some stakeholders have also argued that these potentially competing priorities may expand DFC's energy portfolio in countries with already-high electrification rates, at the expense of energy-poor countries in sub-Saharan Africa.[140]

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[137] See, for example, Ely Ratner, Daniel Kliman, and Susanna V. Blume, et al., *Rising to the China Challenge*, Center for New American Security, January 28, 2020.

[138] Jennifer Hillman and David Sacks, "China's Belt and Road: Implications for the United States," Council for Foreign Relations (CFR), Independent Task Force Report, March 2021, p. 101.

[139] DFC, "DFC Commits to Net Zero by 2040, Increases Climate-focused Investments," press release, April 22, 2021. See also DFC, *DFC Climate Action Plan Under Executive Order 14008*, October 2021.

[140] Todd Moss and W. Gyude Moore, *How Congress Is Turning DFC into an Agency Serving Poland and Israel but not Senegal or Ghana*, CGD, June 3, 2021.

Nuclear Energy Policy

DFC inherited an OPIC ban on nuclear-related projects, but it lifted the ban in July 2020 and announced a potential nuclear investment in October 2020.[141] Supporters said the policy change could facilitate investments in nuclear innovations such as "small modular reactors," which may be less resource intensive and carry lower risk than the large plants of the past.[142] DFC states the change would allow it to compete against Russia and China, which may have lower safety standards and carry greater risk of nuclear proliferation.[143] Opponents argue that such investments are likely to be largely in higher-income countries that have the capacity to manage such plants, and that lack of management capacity in less-developed settings may put such projects at risk of terrorism, nuclear material theft, or nuclear accidents.[144]

Transparency

The handling of the nuclear policy changes highlighted a separate controversy over DFC's approach to transparency. DFC indicated in a April 2020, Federal Register notice that it was only seeking public comment on the policy change voluntarily, consistent with a prior determination by DFC that it was not subject to a government transparency law.[145] That decision provoked criticism from open government advocates, who reportedly filed a lawsuit to reverse that decision.[146] Some advocates were further concerned with the handling of the agency's Transparency Policy, which was released in November 2020. Some complained that the consultation period was designed to discourage public engagement and lacked specificity—the comment period was shorter than other recent DFC notices, and no press release was issued to announce it.[147] Adding to some stakeholders' concerns about DFC's level of transparency, information about IQ scores is not currently available on DFC's website; DFC previously indicated that it would publish such information beginning in the first quarter of 2021, consistent with a BUILD Act requirement.[148]

DFC's early signal that its public engagement was elective rather than mandatory indicates that future policy changes could occur without public consultation. DFC's handling of business confidential and government-sensitive information means that such public information may be limited by privacy concerns, and Congress has historically supported public access limits for sensitive development finance data. OPIC was exempted from requirements of the Foreign Aid

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[141] OPIC's environmental policies categorically prohibited support for the "[p]roduction of or trade in radioactive materials, including nuclear reactors and components thereof." DFC, "Modernizing DFC's Nuclear Energy Policy: Conclusion of 30-day Public Notice and Comment Period," press release, July 23, 2020; see announcement of South Africa investment at DFC, "DFC Convenes U.S., African Leaders for Investment Conference," press release, October 16, 2020.

[142] See DFC's summary of its decision and summary of comments that it received, accessible via DFC, "Modernizing DFC's Nuclear Energy Policy: Conclusion of 30-day Public Notice and Comment Period," press release, July 23, 2020.

[143] *Ibid.*, p. 2.

[144] Paul Day, "US nuclear investment expected to soar after DFC ban lifted," *Reuters*, July 7, 2020.

[145] DFC, "Sunshine Act Regulations," 85 *Federal Register* 20423, April 13, 2020.

[146] Stephanie Amoako, "Opinion: No sunshine—DFC limits transparency when it is needed most," *Devex*, April 28, 2020; Center for Biological Diversity, "Lawsuit Seeks Public Accountability for U.S. Financing of Climate-Damaging International Projects," press release, June 2, 2021.

[147] Accountability Counsel, at https://www.accountabilitycounsel.org/2020/12/ac-joins-26-partners-to-push-back-against-illegitimate-consultation-process-on-dfcs-transparency-and-board-public-engagement-policies/; Ishita Petkar, "Opinion: DFC's public engagement and transparency policies fail communities," Devex, November 25, 2020.

[148] DFC, Draft Transparency Policy, p. 1.

Transparency and Accountability Act of 2016 (FATAA, P.L. 114-91), for instance, and did not submit data to the U.S. foreign assistance database, ForeignAssistance.gov, as a result. The USAID OIG had assessed OPIC to be non-compliant with certain transparency requirements in the past, and U.S. Government Accountability Office (GAO) in the past criticized OPIC's project monitoring and evaluation for relying on client self-reporting and occasional site visits.[149] The BUILD Act eliminated the FATAA exemption for DFC.[150]

DFC also has yet to clarify its alignment with emerging best practices on transparency identified by other development-funding entities, such as the multilateral Development Assistance Committee of the OECD (see "International Cooperation, Competitiveness, and Rules").[151] Some have claimed that DFC has not achieved the same standards for environmental and social assessment transparency that U.S. officials insist upon among multilateral lenders, although the agency seeks to align its policies with the Performance Standards on Social and Environmental Sustainability of the World Bank.[152]

DFC Mandates and Effectiveness

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

Economic Competitiveness

DFC stakeholders have asserted the agency's promise for bolstering U.S. economic competitiveness, countering a long history of debate over OPIC regarding the economic justifications for its government involvement and support. In addition to offering new commercial opportunities for U.S. firms, development finance may serve to support U.S. values in open markets, governance, transparency, and environmental safeguards. It also may shape how countries connect to the rest of the world through ports, roads, and other transportation and technological links, providing footholds for U.S.-centric global value chains.

Yet the economic efficacy debate that surrounded OPIC could re-emerge for DFC.[153] Supporters argued that OPIC filled gaps in private sector investment arising from market failures and helped U.S. businesses compete against competitors backed by OPIC's foreign counterparts. Critics argued that OPIC diverted capital away from efficient uses and crowded out viable, private alternatives. OPIC also intersected with the broader, ongoing investment debate among some stakeholders about whether U.S. outbound investments negatively impact U.S. jobs and exports, or expand them through the U.S. supply of capital goods and services, for instance, for major

[149] DFC OIG, *Top Management Challenges FY2021*, p. 8; U.S. Government Accountability Office, *Overseas Private Investment Corporation: Additional Actions Could Improve Monitoring Processes*, GAO-16-64, December 11, 2015; USAID OIG, "OPIC Lacks Policy and Procedures To Ensure Compliance With Annual Appropriations Requirements," July 9, 2019, pp. 7-8.

[150] Sec. 1470(l) of the BUILD Act.

[151] See e.g. Organization for Economic Cooperation and Development (OECD), Financing for Sustainable Development: Modernisation of the DAC Statistical System, at https://www.oecd.org/dac/financing-sustainable-development/modernisation-dac-statistical-system.htm, accessed 4/5/21.

[152] DFC, ESPP, p. 4; Caroline Vesey, "How Can the DFC Strengthen Its Environmental, Social, and Accountability Standards?," April 1, 2021, Bank Information Center.

[153] CRS In Focus IF10659, *Overseas Private Investment Corporation (OPIC)*, by Shayerah I. Akhtar.

infrastructure development projects overseas.[154] The BUILD Act's strategic motivations mitigated the concerns of some OPIC skeptics that DFC would also operate, in their view, as "corporate welfare." Going forward, DFC's approach to fees and cost-sharing for technical assistance may mitigate some skeptics' concerns, as might the profile of clients supported. How DFC addresses strategic interests could shape any ongoing debates with respect to the agency's economic justifications.

Countering China

DFC's role in the U.S. policy response to counter China's "One Belt, One Road" (OBOR) initiative is a subject of interest to many in Congress.[155] Per the BUILD Act, an element of U.S. policy is to "provide countries a robust alternative to state-directed investments by authoritarian governments and [U.S.] strategic competitors using best practices with respect to transparency and environmental and social safeguards, and which take into account the debt sustainability of partner countries."[156] At the same time, the BUILD Act does not specifically require DFC to counter China's financing. While the very existence of an enhanced U.S. DFI may present a stronger alternative to Chinese financing for developing countries, some policymakers may support giving DFC a tighter statutory link to countering China. Potential options in this regard include directing DFC to prioritize investments that present alternatives to OBOR projects, specifying that a certain share of DFC new investments focus on countering OBOR, easing country income restrictions to allow DFC to counter OBOR in higher-income countries, or establishing a new China-focused initiative within DFC.[157] The Biden Administration has signaled that it will continue to prioritize development finance as a tool to counter OBOR.[158]

Another issue is whether DFC has sufficient resources. BUILD Act proponents argued that the United States is not able to compete dollar-for-dollar with China's spending on infrastructure financing activities in developing countries, but that the United States can do more to counter China. They also argued that an enhanced U.S. DFI could compete more effectively with China in targeted regions or sectors and mobilize additional capital from the private sector. Given OBOR's scale, however, some stakeholders support increasing DFC's exposure cap or widening DFC overseas presence to better source deals. However, others argue that moving DFC towards dollar-for-dollar competition with China could undermine the BUILD Act's requirement that projects be economically viable. Chinese state-led investment financing entities, by contrast, may have been given flexibility by the Chinese government to choose investments that meet strategic or geopolitical objectives and not necessarily economic objectives.[159] Congress may examine and seek to modify the flexibility that it has given DFC to conduct strategic investments. Congress also may examine, through ongoing oversight, how DFC operates as a part of an overall U.S.

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[154] CRS In Focus IF10636, *Foreign Direct Investment: Overview and Issues*, by Shayerah I. Akhtar and James K. Jackson.

[155] CRS In Focus IF11735, *China's "One Belt, One Road" Initiative: Economic Issues*, by Karen M. Sutter, Andres B. Schwarzenberg, and Michael D. Sutherland.

[156] 12 U.S.C. §9611(6); Sec. 1411(6) of the BUILD Act.

[157] See, for example, James Roberts and Brett Schaefer, "The U.S. Development Finance Corporation is Failing to Counter China," The Heritage Foundation, September 17, 2021. Ex-Im Bank's Program on China and Transformational Exports may be a model for a potential China-specific program at DFC; see P.L. 116-64, Div. I, Title IV, Sec. 402.

[158] The White House, *Interim National Security Strategic Guidance*, March 2021, p. 12.

[159] E.g., China's investment financing of the Hambantoa Port in Sri Lanka and standard-gauge railway in Kenya—discussed, respectively, in Jonathan E. Hillman, "The Secret History of Hambantota," CSIS, August 26, 2021; and Max Yoeli, "Belt and Road in Kenya: COVID-19 Sparks a Reckoning with Debt and Dissatisfaction," March 25, 2021.

government and private sector response to countering China's economic influence in less-developed countries.

Congress also may consider the effectiveness of different project-level approaches, and their implications for DFC's other goals. Recent such approaches and/or proposals included to

- *Prioritize activities in regions and sectors where China has a large presence.* One example is the DFC Board's September 2020 approval of DFC commitments of up to $1.7 billion in political risk insurance and financing for natural gas energy projects in Mozambique—where China holds an estimated 18% of public debt.[160]
- *Attach China-related conditions to support.* In December 2020, DFC committed to a framework deal with Ecuador reportedly to pay off or refinance billions of dollars of sovereign loans from China in exchange for excluding Chinese companies from its telecommunications networks.[161] Some stakeholders have criticized the deal's "transactional" nature.[162]
- *Focus on projects that strengthen competition with Chinese suppliers in overseas markets.* In December 2020, DFC committed up to $500 million in financing to a partnership led by Vodafone to establish a new telecommunications operator in Ethiopia.[163] This group reportedly won the deal over a Chinese-backed group. DFC's participation reportedly helped to defray the added costs of using non-Chinese equipment that the consortium considered sourcing from China's Huawei Technologies Co. and ZTE Corp, which often provide financing backed by China's own export credit and development finance agencies.[164]
- *Focus on significant infrastructure projects with major standards-setting potential and economic consequence.* DFC committed a $190 million loan to Trans Pacific Network to support a subsea telecommunications cable—expected to be the world's longest—to connect Singapore, Indonesia, and the United States, with the capacity to serve other markets in Southeast Asia and the Pacific.[165] As originally developed by DFC's predecessor, the project was intended to be developed "on terms that prioritize quality, high social and environmental standards, and financial sustainability."[166] Additionally, DFC's involvement in the Blue Dot Network initiative to develop a certification process to promote high-quality infrastructure projects may support standards-setting.

[160] DFC, "DFC Approves $3.6 Billion of New Investments in Global Development in Largest Quarter Ever," press release, September 9, 2020; Alex Vines, "China's Southern Africa Debt Deals Reveal a Wider Plan," Chatham House, December 10, 2020.

[161] Demetri Sevastopulo and Gideon Long, "U.S. Development Bank Strikes Deal to Help Ecuador Pay China Loans," *Financial Times*, January 14, 2021.

[162] Clemence Landers, Nancy Lee and Scott Morris, "Why Does DFC Want to Pay Off Ecuador's Chinese Creditors?," Center for Global Development, January 19, 2021.

[163] DFC, "DFC Approves Over $2.1 Billion in New Investments for Global Development," press release, December 10, 2020.

[164] Stu Woo and Alexandra Wexler, "U.S.-China Tech Fight Opens New Front in Ethiopia," *The Wall Street Journal*, May 22, 2021.

[165] DFC, *FY2020 Annual Report*, p. 12.

[166] OPIC, "OPIC to Support World's Longest Subsea Telecommunications Cable," press release, November 5, 2019.

- *Focus on projects to strengthen U.S. supply chains.* A White House report called for DFC to work with allies and partners to support investments to expand production capability for critical products, stating that DFC can help finance overseas mining and manufacturing that "supports supply chain resilience and upholds international standards of environmental and social performance."[167]
- *Intensify co-financing with foreign DFIs to leverage resources.* For example, some analysts call for DFC, in the absence of a U.S. 5G alternative, to co-finance projects with counterparts to help Nokia, Samsung, and Ericsson expand their market share for 5G.[168]

In examining these approaches, Congress may consider whether to encourage DFC to intensify any of them, as well as to direct DFC to report on its activities to counter OBOR; or it may determine such activities to be outside of DFC's authorities. Congress also may consider the utility of negotiating international standards for development finance generally and/or for specific sectors, such as infrastructure, that may help U.S. firms compete on a more level playing field against China-supported firms (see "International Cooperation, Competitiveness, and Rules").

Development Concerns

Recent congressional action highlights the tension between DFC's development mandate and efforts to counter strategic and economic competitors. Some Members of Congress have complimented DFC's early progress on development impact,[169] but recent DFC and congressional actions signal a coming debate over the priority given to development impact in DFC programming.[170] A House bill would allow financing to high-income countries globally (H.R. 3524, Sec. 116), expanding the exemption for European energy projects—though it was revised in committee, reportedly at the request of DFC officials.[171] Former CEO Adam Boehler claimed foreign policy objectives almost always overlap beneficially with development impact,[172] but some in the development community have criticized what they see as opacity about the respective roles of foreign policy and development impact in DFC decisions.[173]

In DFC's first year, President Trump delegated a certification authority required for investing in upper-middle-income countries to the Secretary of State,[174] leading some stakeholders to call the waiver "barely been a speed bump," given that the Secretary of State chairs the DFC Board.[175] Development experts criticized a DFC financing agreement with Ecuador as not aligned with a

[167] E.O. 14017 of February 24, 2021, "America's Supply Chains," 88 *Federal Register* 11849-11854, March 1, 2021; and The White House, *Building Resilient Supply Chains, Revitalizing American Manufacturing, and Fostering Broad-Based Growth*, 100-Day Reviews Under Executive Order 14017, June 2021, p. 17.

[168] Jennifer Hillman and David Sacks, "China's Belt and Road: Implications for the United States," CFR, Independent Task Force Report, March 2021, p. 102.

[169] Clemence Landers, "USDFC Monitor: A Q&A with Senator Chris Coons," CGD, October 8, 2020.

[170] European Energy Security and Diversification Act of 2019 (Division P, Title XX, P.L. 116-94). DFC, "DFC Approves Over $2.1 Billion in New Investments for Global Development," press release, December 10, 2020.

[171] Adva Saldinger, "What is DFC's mandate? Debate over a bill turns up many answers," *Devex*, July 27, 2021.

[172] Adva Saldinger, "US DFC at 1: Ambition, investments, and mission drift?" *Devex*, December 22, 2020.

[173] See e.g., Conor Savoy, "Time for a New Financing for Development Conference," CSIS, February 24, 2021.

[174] Executive Office of the President, "Delegation of Authority Under the Better Utilization of Investments Leading to Development Act of 2018," 85 *Federal Register* 45749, July 7, 2020.

[175] Clemence Landers, Scott Morris, Charles Kenny, Nancy Lee and Jocilyn Estes, "Is DFC Going To Be a Development Finance Institution or a Foreign Policy Bank?" CGD, March 25, 2021.

clear development objective.[176] The scale of commitments needed to counter China, some assert, may also consume a disproportionate share of DFC's exposure cap, leaving fewer resources for development-focused activities. The agency's first two multibillion-dollar investments, in Ecuador and Mozambique, were reportedly to advance such strategic competition aims.[177] Noting DFC's inclusion in legislation focused on strategic competition, some argue that DFC's identity as a development finance institution could be questioned if national security projects become its central focus, rather than an occasional exception.[178]

DFC Activity Under the Defense Production Act

An active issue in DFC's first year was its implementation of authority delegated by the Trump Administration from the Department of Defense (DOD) to DFC to provide loans to support the domestic response to the COVID-19 pandemic under Title III of the Defense Production Act (DPA, P.L. 81-774).[179] DFC's first potential deal was placed on hold after drawing scrutiny from lawmakers and the Securities and Exchange Commission—though a recent OIG assessment did not find evidence of DFC misconduct.[180] DFC subsequently approved its first DPA commitment in November 2020 for the domestic production of injectors for COVID-19 vaccines.[181] According to a recent GAO report, DFC and DOD received 178 applications for DFC-DPA support up to mid-October 2021, but they have not completed any loans. GAO identified various factors that slowed the process, including the receipt of more applications and more complex interagency processes than expected.[182] The application window remains active.[183]

DFC asserts that its DPA activities are "walled off" from its BUILD Act responsibilities, but some development advocates have expressed concern that DPA activities may distract DFC.[184] DFC's IG determined that DPA efforts "do not distract from or negatively impact" core agency responsibilities.[185] GAO recommends that DFC evaluate the overall effectiveness of the DPA loan program, and also that DFC develop cost accounting methodologies relating to administering the program.[186] DFC did not concur with the former recommendation, contending that the agencies with budget and programmatic authority are more equipped to make such an evaluation, but concurred with the latter recommendation. Congress may monitor how GAO recommendations

[176] Clemence Landers, Nancy Lee and Scott Morris, "Why Does DFC Want to Pay Off Ecuador's Chinese Creditors?" CGD, January 19, 2021.

[177] Scott Morris, "China's Role in Developing Countries: Resetting US Policy with a "3 C's" Agenda," CGD, December 3, 2020.

[178] Adva Saldinger, "What is DFC's mandate? Debate over a bill turns up many answers," *Devex,* July 27, 2021.

[179] E.O. 13922; CRS Insight IN11387, *COVID-19: Defense Production Act (DPA) Developments and Issues for Congress,* by Heidi M. Peters and Erica A. Lee, and CRS Report R43767, *The Defense Production Act of 1950: History, Authorities, and Considerations for Congress*, by Heidi M. Peters.

[180] DFC, "DFC to Sign Letter of Interest for Investment in Kodak's Expansion into Pharmaceuticals," July 28, 2020; Adva Saldinger, "Kodak Investment "Not a Done Deal," Says US DFC Chief," Devex, August 6, 2020; and Letter from Anthony Zakel, DFC Inspector General, to The Honorable Elizabeth Warren, December 2, 2020.

[181] DFC, "DFC Approves $590 Million Loan to ApiJect to Expand Infrastructure and Deliver Critical Vaccines in Response to the COVID-19 Pandemic," press release, November 19, 2020.

[182] GAO, *U.S. International Development Finance Corporation: Actions Needed to Improve Management of the Defense Production Act Loan Program*, GAO-22-104511, November 17, 2021.

[183] See DFC, "Defense Production Act (DPA)" webpage, available at https://www.dfc.gov/dpa.

[184] Adva Saldinger, "How US DFC's domestic lending program in response to COVID-19 works," *Devex,* November 25, 2020.

[185] DFC OIG, *Top Management Challenges Facing DFC in 2021*, p. 5.

[186] GAO, *U.S. International Development Finance Corporation: Actions Needed to Improve Management of the Defense Production Act Loan Program*, GAO-22-104511, November 17, 2021.

are implemented, as well as broader issues relating to the effectiveness of the DFC-DPA Loan Program and its implications for DFC's mission.

International Cooperation, Competitiveness, and Rules

The international development finance landscape presents a number of issues that may be of interest to Congress, including the following.

Cooperation with Foreign DFIs. Congress may examine what leadership role, if any, DFC should play in international initiatives related to development finance. Key issues include whether DFC's new authorities and policies enable it to co-finance, coordinate, and cooperate effectively with foreign counterparts and the private sector or if hurdles remain, and whether to elevate collaboration with foreign DFIs on shared goals. In the 117th Congress, some bills would direct DFC to partner with foreign DFIs, for instance, on countering China and responding to climate change (see "Pending Legislation").

International Competitiveness. DFC bears similarities and differences to foreign DFIs that may not only affect the nature of their cooperation (see above "Selected Comparisons of Development Finance Institutions (DFIs)"), but also shape DFC's competitiveness in supporting U.S. commercial and development interests. Congress may consider whether to require DFC to report how it compares to foreign DFIs, as Ex-Im Bank must do with respect to major foreign export credit agencies (ECAs).[187] A DFI-focused review may add value but could also be resource intensive.

Rules for the Road. DFC's role in the Build Back Better World (B3W) initiative and the potential update to the Blue Dot Network may renew questions about the need for new rules to govern global investment and development financing. No comprehensive "rules for the road" exist on development finance comparable to those for government-backed export credit financing under the OECD.[188] Some international standards exist, however, on environmental and social governance and transparency.[189] Congress may examine whether new rules are in the U.S. interest and, if so, the proper venues for any such discussions. If new rules are pursued, China's willingness to participate in negotiating them, and the implications of its participation for the robustness of the rules, are key questions.[190]

Sustainability and Risk Management

By statute, DFC generally must prioritize projects in less-developed countries, which often pose greater risk for investments than more developed countries pose. Nevertheless, the OIG of DFC identifies a key responsibility for DFC as balancing its revenues and operating costs to avoid

[187] 12 U.S.C. §635g-1. See, for example, *Ex-Im Bank, Report to the U.S. Congress on Global Export Credit Competition* (for the period January 1, 2020 through December 31, 2020), June 2021. In recent years, Ex-Im Bank's annual competitiveness report has included some comparisons on DFI activity, as they may factor into ECA competitiveness internationally. Ex-Im Bank's ongoing analytic efforts may offer coordination opportunities.

[188] The OECD Arrangement on Officially Supported Export Credits ("the Arrangement") aims to ensure a "level playing field" for exporter competition. Applying to ECA financing with repayment terms of two years or more, the Arrangement includes limitations on financing terms and conditions (e.g., minimum interest rates, maximum repayment terms), as well as provisions on transparency, tied aid, and other areas. Under an exception to World Trade Organization (WTO) rules, Arrangement-compliant export credit practices are not treated as export subsidies.

[189] These include the International Finance Corporation (IFC) Performance Standards on Social and Environmental Sustainability, the OECD Guidelines for Multinational Enterprises, and the public-private Equator Principles.

[190] These issues have presented challenges in the export credit context.

undue burdens to U.S. taxpayers in riskier markets. DFC's Chief Risk Officer has said that, "In creating DFC, Congress understood the importance of both managing risk and capitalizing on opportunities to advance the agency's development objectives."[191] DFC has noted that an elevated risk appetite may be necessary to achieve agency objectives. For example, DFC's development strategy cited such a risk appetite as potentially requiring additional appropriations for higher default rates in high-risk, high-impact investments.[192]

DFC may mitigate some risk management challenges by building on OPIC's systems, given OPIC's nearly four-decades-long track record of returning funds to the Treasury annually.[193] Open questions include the extent to which DFC's distinct set of mandates, authorities, and focus areas may affect the agency's risk profile, and whether DFC's risk management structures, policies, and processes are up to the task. Congress also may evaluate the extent to which DFC's dedicated OIG adds to its risk management capabilities and if other structures or programming are needed.

Certain features of DFC—such as its new authority to offer grant-based technical assistance and its heightened focus on supporting potentially riskier projects in less-developed economies—may affect the amount of its offsetting collections relative to its revenues. This dynamic could affect DFC's ability to continue making contributions annually to the Treasury, though DFC did make such contributions to the Treasury in its first two years. Some analysts express concern that the priority that DFC places on contributing funds to the Treasury, however, could result in DFC avoiding smaller or riskier deals that may break even and not generate earnings but that nevertheless are highly developmental.[194]

More broadly, Congress may examine both whether DFC is taking sufficient risks to meet its development mandate, and whether it is managing those risks sufficiently. Some stakeholders previously levied criticism that OPIC was too risk-averse and did not do sufficient business in the "poorest of the poor" countries. Others argued that OPIC was demand-driven and that activities in the riskiest markets were more in the purview of foreign assistance support, such as through USAID. It appears that similar debates are emerging over DFC, and also may bolster arguments for stronger linkages between DFC and USAID (see "DFC Interagency Relationships").

DFC Interagency Relationships

Congress may scrutinize how DFC works with other federal agencies. In terms of development, this may include closer examination of whether the transfer of DCA from USAID to DFC has weakened the previously close link between DCA tools and USAID programs, or has the potential to make such tools more robust.[195] DFC's coordination plan emphasizes a strong interagency relationship both with USAID and with other agencies, such as through the Development Finance Coordination Group (DFCG), to channel DFC investments effectively.[196] Some of DFC's new competencies overlap with these agencies, though their respective legislative mandates may lead to different priorities. For instance, DFC and the U.S. Trade and Development

[191] DFC, "Alice Miller Named First DFC Chief Risk Officer," press release, May 1, 2020.

[192] DFC, *Roadmap*, p. 57.

[193] OPIC, *FY2019 Annual Management Report*, p. 2.

[194] Eric Postel and Anthony F. Pipa, *Solidifying the DFC-USAID Relationship*, The Brookings Institution, July 30, 2021.

[195] Eric Postel and Andrew Natsios, "Opinion: The Development Credit Authority needs to stay in USAID," *Devex*, February 26, 2018.

[196] DFC, *Coordination Report*, 2019, pp. 5-10.

Agency (TDA) both conduct feasibility studies, but to support investments and exports, respectively. MCC exclusively prioritizes development concerns, leading to different decision-making factors on its Board (also chaired by the Secretary of State) than for DFC. DFC, based on its development strategy, also seeks to work with USTR and other trade-oriented agencies to reinforce U.S. trade agreement commitments.[197] Congress may evaluate whether these agencies de-conflict programming overlap and whether DFC is adequately leveraging capacities of partner agencies, including TDA, Ex-Im Bank, and USAID's Private Sector Engagement Hub. In addition, Congress may examine opportunities for DFC to cooperate on financing projects with Ex-Im Bank and USAID.

Congress may also evaluate the efficacy and coherence of the various interagency coordination units. For instance, working groups for Power Africa and Feed the Future seek to coordinate activities for those specific initiatives, but they include many of the same agencies whose leadership sit on the DFC Board, on the DFCG, and who coordinate through the National Security Council. DFC houses two interface units for USAID—the Office of Development Policy's Development-Coordination Unit and the Office of Development Credit's Mission Transaction Unit—in addition the Chief Development Officer, who is the primary USAID liaison. Separately, DFC, by statute, engages with trade policy actors both through the interagency Trade Promotion Coordinating Committee (TPCC) and consultations with USTR on compliance of partner countries with international trade obligations. These roles meet clear statutory provisions of the BUILD Act but could create overlapping communication lines among these agencies.

Congress may seek to shape or exert influence over these interagency relationships. For instance, DFC's involvement in the Global Food Security Strategy, Global Fragility Strategy, or the TPCC could elevate, respectively, development impact, national security, or U.S. trade policy priorities. Congress may evaluate how such coordination changes DFC's relative priorities.

Pending Legislation

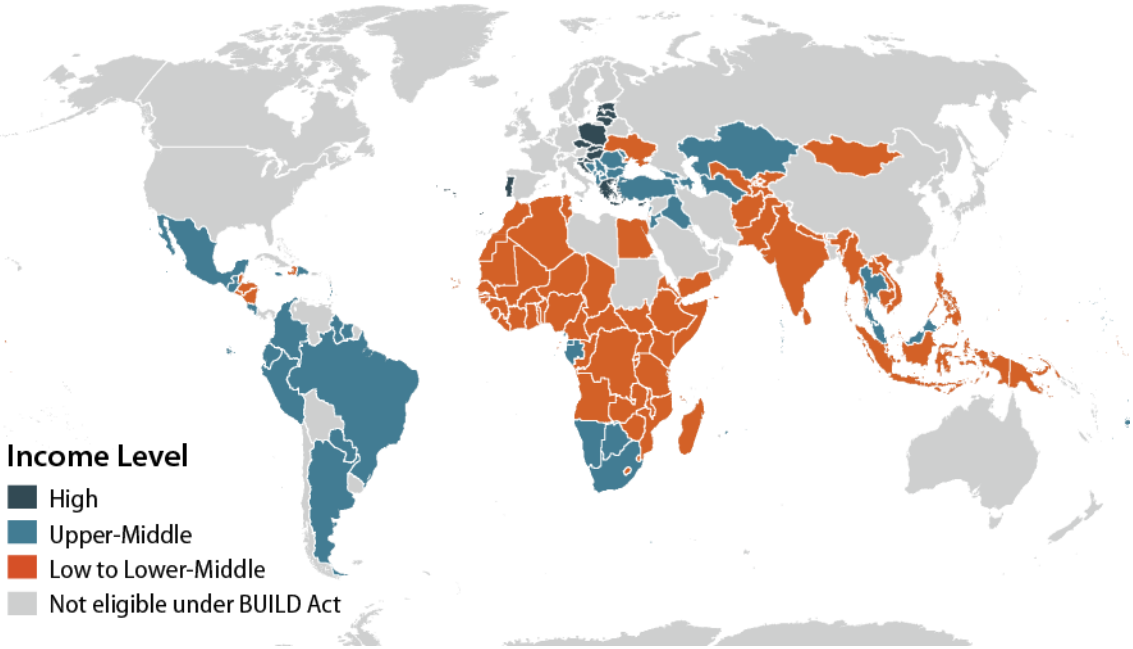
In the 117th Congress, two major bills have been introduced that address some of these issues, both as part of a broader package of measures to counter China—the United States Innovation and Competition Act (S. 1260), and the Ensuring American Global Leadership and Engagement (EAGLE) Act (H.R. 3524). Both bills would increase DFC's exposure cap from the current $60 billion to $100 billion, direct DFC to elevate partnerships with foreign DFIs, and address scoring issues related to equity investments. These bills also would include DFC in interagency efforts or strategies to advance certain policy goals. On June 8, 2021, the Senate voted (68-32) in favor of S. 1260 with an amendment. On July 15, 2021, the House Foreign Affairs Committee voted (26-22) to report H.R. 3524 out of committee.

Other bills also have been introduced that would prioritize technical, sectoral, or regional DFC issues, including Sub-Saharan Africa (S. 1022), digital infrastructure in Europe (H.R. 3344); energy (S. 758); and decarbonization (S. 1167, H.R. 2102). Other bills would include DFC in interagency efforts to develop or participate in strategies or coordination efforts to achieve certain policy goals, including for climate-related support in the Pacific Islands (H.R. 2967), and global distribution of COVID-19 vaccines (S. 2297).

Additionally, pending FY2022 appropriations bills in the House (H.R. 4373; H.Rept. 117-84) and Senate (S. 3075) include certain Members' priorities for DFC, and final appropriations, including explanatory statements, may serve as vehicles for further issues.

[197] DFC, *Roadmap*, p. 60.

Appendix. Country Eligibility for DFC Support



Sources: CRS, based on DFC, "Where We Work" webpage, accessible at https://www.dfc.gov/what-we-offer/eligibility/where-we-work; the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act, Div. F of P.L. 115-254); and the European Energy Security and Diversification Act of 2019 (EESDA, Div. P, Title XX, of P.L. 116-94).

Notes: Countries' ineligibility may be due to income levels, lack of an investment incentive agreement, or other restrictions. DFC support in high-income countries is limited to qualifying energy projects under EESDA. DFC support in upper-middle-income countries requires a certification to Congress that U.S. economic or foreign policy interests are at stake, and for the support to be expected to be highly developmental, pursuant to the BUILD Act. DFC support is also available in the United States to support the domestic COVID-19 response, under Title III of the Defense Production Act (DPA, Title III, P.L. 81-774).

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