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POLICY BRIEF

US International Development Finance Corporation Reauthorization

Since its inception in 2019, the US International Development Finance Corporation (DFC) has been instrumental in mobilizing capital to promote development and enhance lives globally, offering a stark contrast to the failures of authoritarian policies and practices. With over $40 billion deployed in more than 110 countries, the DFC has demonstrated that the trade-off between global development and financial returns needs not be a binary choice. In fact, both are attainable, and pursuing them is the surest way to enhance the economic and national security of the United States.

However, more can be done to fully unleash the potential of the DFC to maximize the global impact of US investments abroad in an era of shifting geopolitical alignment and strategic competition. As the need for congressional reauthorization approaches, policymakers should prioritize policies that promote flexibility, innovation, and impact, while making money for taxpayers. The poorest communities around the world must continue to be prioritized, but so too must projects in locations of geopolitical and strategic importance. Reauthorization should provide the DFC with broad flexibility in deal terms, approvals, and organizational structure, while ensuring that impact and market-based inclusive economic growth are core organizational pillars moving forward.

Congress should consider the following policies during reauthorization:

- **Maximum Contingent Liability:** Since 2013, the People's Republic of China has committed over $1 trillion to projects through the Belt and Road Initiative. The DFC's maximum liability is currently limited to $60 billion (Sec. 1433 of the BUILD Act/P.L. 115-254). Though the quality of DFC's capital and its catalytic nature to promote local employment and skill development, transparency, environmental and labor protections, and sustainable development outcomes surpass that offered through authoritarian-led alternatives, to better meet geopolitical challenges (and to account for recent inflation) Congress should increase the maximum contingent liability of the DFC to at least $100 billion.

- **Reauthorization Time Frame:** Congress should authorize the DFC for up to 10 years in order to promote market confidence and stability.

- **Financial Commitment Notification/Approval:** Congressional notification is currently required prior to making financial commitments in excess of $10 million (Sec. 1446). Synching this threshold to the level, currently $50 million, at which the DFC Board of Directors is needed to approve a commitment would help streamline DFC operations and avoid unnecessary politicization.

- **Country Eligibility Requirements:** The DFC charter limits investment to "less developed countries with a low-income economy or lower-middle-income economy" absent a presidential waiver (Sec. 1412). This provision effectively constrains investment in US partners with significant internal economic disparities, including Thailand, Malaysia, Indonesia, and the majority of the Americas. Furthermore, relying on gross national income

per capita indicators does not account for sub-national disparities, nor does it fully account for the variations in income levels experienced by commodity-dependent developing countries. Congress should revise eligibility requirements to grant the DFC greater flexibility for supporting projects in poorer regions of upper-middle income economies that have a clear development impact and support US policy objectives. Expanded eligibility could be determined in a number of ways, including a blend of adherence to World Bank Group lending groups (inclusive of IDA-Blend-IBRD), sub-national data on income levels to identify low-income communities in upper-middle income countries, and country-wide inequality measurements such as GINI coefficients.

- **Economic Security:** Congress should specify economic security (inclusive of the importance of critical minerals and supply chain resilience) as a policy objective (Sec. 1411(8)).
- **Equity Authority:** The ability to make equity investments is one of the most impactful, yet underutilized, tools that DFC has in its authority (Sec. 1421). Reauthorization needs to address the current government accounting rules that don't allow for equity as a long-term asset with the potential to generate returns.
- **Maximum Flexibility:** To ensure the DFC has maximum flexibility to accomplish the breadth and depth of its mission, reauthorization should not mandate ancillary statutory offices or overseas offices. Rather, DFC should be encouraged to identify partners in the private sector in order to leverage their capacity and expertise.
- **Debt Subordination:** Through its ability to make direct equity investments as well as invest in emerging market funds, DFC should identify investors interested in taking subordinated debt positions in the capital stack as an additional means toward appropriately scaling projects and de-risking taxpayer investments. The critical step is ensuring DFC has the ability to analyze and appropriately measure the risk to match investors effectively. Additionally, DFC should have the ability to accept subordinated debt in select cases as a means of mobilizing private capital to enhance its existing resources.
- **Lending in Foreign Currencies:** DFC has the ability to make foreign currency-denominated loans and guaranties (Sec. 1421(a)(2)), as well as equity investments (Sec. 1421(c)(2)). To better evaluate the efficacy of existing statutory authority, DFC should be required to include in its annual report a subsection on the specific uses of these authorities throughout the fiscal year.

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