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From Caution to Competition: Positioning U.S. Development Finance for Industrial Power

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Summary

Congress created the U.S. International Development Finance Corporation (DFC) to provide a high-standard alternative to the Belt and Road Initiative, China's trillion-dollar effort to extend geopolitical influence and industrial power through strategic infrastructure investments abroad. Seven years on, the DFC has built a nearly \$49 billion portfolio across more than one hundred countries, advancing the growth of partner countries and U.S. strategic interests. Yet the agency remains constrained by an unsettled identity, slow and duplicative processes, narrow statutory and budgetary authorities, a modest scale, and a temporary authorization. This paper argues for a more ambitious vision for the DFC—moving from a cautious agency to a permanent, expedient, and properly tooled instrument of American power. It proposes reforms along four dimensions: strategy, speed, scope, and scale.

Strategy: From Competing Mandates to an Industrial Anchor

- Provide a more coherent strategic foundation by anchoring the DFC's development and foreign policy mandate in America's emerging industrial strategy—specifically the priority sectors identified in recent U.S. laws (semiconductors, digital infrastructure, critical minerals, transportation and logistics, health security, and advanced energy)—while establishing a bounded contingency window for exceptional shocks with clear criteria, time limits, and exit conditions.

Speed: How Purpose Can Prevail over Process

- Streamline environmental and social due diligence by allowing reliance on due diligence conducted by peers with equivalent standards.
- Modernize labor eligibility by eliminating reliance on outdated Generalized Services of Preferences country requirements, relying on project-level labor standards.
- Adopt risk-based Know Your Customer reviews by allowing reuse of financial reviews carried within the previous three to five years, with automated monitoring for changes.
- Introduce litigation safe harbors that provide statutory protection for transactions conducted in accordance with DFC due diligence standards, reducing risk-averse lawyering.
- Raise congressional notification threshold from \$10 million to \$100 million, focusing oversight on larger transactions.
- Reform upper-middle-income country certifications by removing or devolving to the DFC board the requirement for congressional certification.
- Raise the board approval threshold from \$50 million to \$150 million, reserving board bandwidth for significant, market-shaping deals.

Scope: Recalibrating the DFC's Aperture for Strategic Reach

- Enable limited DFC engagement in high-income markets where strategically important projects may not attract sufficient private capital, subject to portfolio caps (8–10 percent).
- Fix equity-scoring distortions by applying Federal Credit Reform Act (FCRA)-style net present value accounting to better reflect returns and to enable scalable use of equity authority.
- Clarify treatment of political risk insurance by excluding insurance from FCRA treatment, enabling fuller deployment of one of the DFC's most consequential instruments.
- Pilot sovereign lending and expand support to SOEs where projects demonstrably advance U.S. interests.
- Allow more flexible use of subordinated debt, encouraging catalytic use of subordinated debt in strategic sectors.

Scale: Lifting the Ceiling on Strategic Ambition

- Lift the \$60 billion portfolio cap, allowing larger and more numerous investments in strategic industries. Raise or remove the internal \$1 billion single-project exposure limit.
- Expand overseas presence by deploying multidisciplinary field teams in key regional hubs to source deals, build relationships, and identify bankable projects aligned with U.S. priorities.
- Require staff to conduct proactive sectoral and regional analysis, counterpart identification, and pipeline development.
- Increase hiring of sectoral and project finance experts, using administratively determined positions to attract competitive talent.
- Make the DFC a permanent agency, while providing for periodic reviews, to strengthen credibility with partners and investors.

The DFC was built to be cautious, but caution is a losing strategy in a world where speed, scale, and industrial alignment define competitiveness. Addressing these obstacles would improve the agency's capacity to mobilize capital and operate with a clearer strategic purpose, grounded in the long-term U.S. industrial priorities that shape global markets and advance the prosperity of partner countries.

Introduction

The election of President Donald Trump in 2016 marked a seismic shift in U.S.-China relations. On the campaign trail, he had threatened to “use every lawful presidential power to remedy trade disputes” with China, denouncing its “illegal export subsidies, prohibited currency manipulation, and rampant theft of intellectual property.”¹ His rhetoric resonated across party lines. In 2018, Senate Democratic Leader Chuck Schumer warned: “China is eating our lunch. China is rapacious. China, day by day, gnaws away at our economy.”² A slew of bills followed in Congress, targeting Beijing with tightened export controls, sanctioning Chinese government officials, and restricting the use of China’s technology in the United States.³

The United States’ development finance—the use of state-backed tools like loans, guarantees, equity investments, and insurance policies to drive private investment into developing economies—was swept into this reorientation. Congress recognized that China’s flagship program to finance strategic infrastructure worldwide, the Belt and Road Initiative (BRI), had poured more than a trillion dollars around the world, expanding its geopolitical influence and industrial aims.⁴ The Better Utilization of Investments Leading to Development (BUILD) Act of 2018 was the bipartisan response, establishing the U.S. International Development Finance Corporation (DFC) to advance foreign policy and development goals.⁵ Senators Bob Corker and Chris Coons, its lead sponsors, argued that the legislation “strengthens our hand to compete against China.”⁶ The act’s development mandate, including poverty reduction and the mobilization of private capital to move countries from “aid recipients to trading partners,” also made the DFC an attractive development tool to many members of Congress.⁷ The confluence of strategic competition and development impact helped secure decisive bipartisan support for the law. Following the law’s enactment, Coons said the DFC would “offer a clear alternative” to the BRI and “showcase projects that comply with the best international practices.”⁸

Since 2019, the DFC has worked efficiently and rapidly to expand its investment portfolio, to grow its global footprint, and to experiment with its toolkit. Its portfolio nearly doubled in four years—from \$25.7 billion in 2020 to \$48.9 billion in 2024, including \$12 billion in new investments in the latter year.⁹ Its investments span more than one hundred countries, and it has established a modest overseas footprint across Africa, the Indo-Pacific, and Latin America.¹⁰ For a young agency with just over 500 staff, these achievements provide a strong foundation.¹¹

Yet, despite this progress, the DFC remains an institution with an unsettled identity and a temporary mandate. Congress allowed the agency’s seven-year authorization to expire in October 2025, resulting in a temporary lapse in its operations and signaling unpredictability to co-investors and foreign partners. Congress later enacted a short-term extension of the agency’s authorization, as it weighed longer-term legislation. However, the agency’s lapse highlighted a recurring theme in debates over the DFC’s reform: the United States must decide whether it wants a risk-averse, time-limited agency or a permanent, properly tooled instrument of American power.

In addition, the DFC’s mission of advancing development and foreign policy is broadly understood, but the balance between those aims is contested in execution. Development advocates have pressed to privilege development impact in the DFC’s projects, while China hawks have pushed for investments that advance geopolitical objectives.¹² As a result, the agency veers between the competing roles of development lender and foreign policy tool, without a durable framework to balance them. It has been acutely vulnerable to political shifts, with each administration reinterpreting its purpose. Furthermore, the DFC’s processes privilege caution, its toolkit remains constrained, and its relatively small scale prevent it from achieving its full potential.

The absence of a durable strategic anchor that integrates the DFC’s dual mandate into a coherent purpose is its central vulnerability. However, Congress has laid the groundwork for a potential remedy. In recent years, it has advanced major laws that form the contours of a modern industrial strategy—defined here as the deliberate use of public investment, policy, and strategic partnerships to strengthen national capacity and resilience in sectors central to long-term competitiveness. Development finance could be the connective tissue linking this emerging industrial strategy to America’s global engagement, translating national priorities into shared growth, technological innovation, and resilient supply chains. Viewed

The DFC remains an institution with an unsettled identity and a temporary mandate.

through the lens of industrial strategy, the DFC’s purpose would be to build cross-border production systems that connect U.S. priorities to the growth of partner countries. For example, it would support projects that diversify inputs, expand processing and assembly in trusted locations, and move goods to market more efficiently. Ultimately, this approach could yield fewer choke points, faster recovery from shocks, lower costs, and stronger local institutions.

Some of this alignment is already occurring. The DFC's investments in critical minerals projects in South America,¹³ U.S. solar manufacturing in South Asia,¹⁴ and vaccine production in Africa,¹⁵ illustrate this potential.¹⁶ These projects show how development finance can extend U.S. industrial goals into shared resilience and growth.

Critics note that industrial priorities can be subject to political reversals, even when legislated by Congress. Advanced energy is the clearest example of partisan disagreement. The One Big Beautiful Bill Act of 2025 retained and modified the domestic subsidies for geothermal, nuclear, and hydropower energy authorized by the Inflation Reduction Act of 2022 but eliminated or phased out incentives for electric vehicles and solar and wind production.¹⁷ The Trump administration has taken a similar approach internationally and withdrawn from multilateral financing partnerships designed to help Indonesia, South Africa, and Vietnam shift toward renewables, while seeking to strengthen geothermal energy cooperation abroad.¹⁸ The potential for volatility, however, does not invalidate an industrial framework. Instead, it argues for a DFC portfolio that focuses on a stable set of strategic sectors while acknowledging the project mix within those sectors may evolve over time.

Additional challenges the DFC faces—including its slow processes, narrow geographic and financial scope, and small scale—are all linked to this missing strategic foundation. This paper proposes the following reforms to address them.

- **Streamlined due diligence and oversight:** Modernize approval processes, eliminate duplicative requirements, and introduce legal protections that preserve accountability while enabling faster, more confident action.
- **Flexible financial instruments and broader reach:** Update budget rules to expand the use of equity and political risk insurance, authorize limited sovereign lending, and permit targeted engagement in advanced markets while maintaining transparency.
- **Institutional scale and permanence:** Raise the portfolio cap, expand overseas staffing, recruit technical expertise, institutionalize portfolio analytics, and make the DFC a permanent agency.

A more ambitious vision for the DFC is possible. By linking development finance to industrial strategy, the United States can transform the DFC from a cautious financier into a powerful instrument of shared prosperity at home and abroad. Doing so will require institutional confidence, tolerance for calculated risks, and the ability to operate with focus, speed, and scale. The DFC must shift from its architecture of caution to one of competitive ambition. Against the backdrop of the agency's lapse and debates over reform, this paper offers long-term recommendations for the executive branch and Congress that provide a path toward that transformation.

The Origins of America's Development Bank

Following the adoption of the BUILD Act, the DFC was established in 2019 through the merger of the Overseas Private Investment Corporation (OPIC) and the Development Credit Authority program within the U.S. Agency for International Development (USAID). This aimed to enhance the government's development finance capacity, to expand its financial toolkit, to strengthen alignment on development and foreign policy, and to compete more effectively with China and its BRI (see box).

The Belt and Road Initiative

Launched by President Xi Jinping in 2013, the Belt and Road Initiative (BRI) has dramatically increased China's influence and reach through strategic infrastructure projects abroad. For the purposes of this paper, the BRI refers to Chinese construction contracts and investments in countries that have signed BRI Memorandums of Understanding, financed or executed mainly by China's state-owned enterprises, state policy banks, or commercial banks. Through the first half of 2025, Beijing has cumulatively devoted more than \$1.3 trillion to BRI engagements across 150 countries. These span sectors such as telecommunications, ports, mining, and energy, and they serve domestic and international objectives.¹⁹

The BRI has advanced China's industrial strategy by deploying excess labor abroad, subsidizing access to foreign markets for Chinese firms, expanding export markets, and building global supply chains.²⁰ It has also been a tool of geopolitical leverage. Beijing has used the BRI to expand its trade linkages worldwide, including transport networks for oil, gas, and other critical resources, and to consolidate market dominance in critical sectors such as telecommunications.²¹

China's model carries risks for partner countries. Critics highlight cases in which Chinese loans have left developing countries with unsustainable debt, tied to megaprojects that fail to generate sufficient economic returns, thereby making them vulnerable to Beijing's political and economic coercion. By 2023, for instance, an estimated 80 percent of developing countries with Chinese sovereign loans were in debt distress.²²

Sri Lanka's Hambantota Port project exemplifies these risks. China financed and constructed it, after the United States and India had opted not to do so because of concerns about economic viability.²³ Sri Lankan officials hoped the port would serve as a major shipping hub; however, it underperformed commercially. Unable to service its debt, in 2017 Sri Lanka agreed to lease the port to China for ninety-nine years for \$1.1 billion.²⁴ The U.S. intelligence community assessed that Beijing seeks to use the port for military purposes.²⁵ Analysts assert that such projects, combined with broader fiscal mismanagement, led to Sri Lanka's sovereign default in 2022.

U.S. officials have also criticized BRI projects for environmental degradation, weak labor protections, and poor governance standards, which result in substandard quality.²⁶ One study that analyzed more than 13,000 projects found that 35 percent of the BRI infrastructure project portfolio encountered significant challenges, including “corruption scandals, labor violations, environmental hazards, and public protests.”²⁷

Malaysia provides another example.²⁸ In 2016, senior Chinese officials proposed helping the country’s government settle debts for its graft-ridden sovereign fund and lobbying foreign governments to drop corruption probes in exchange for inflated BRI contracts and naval access. Then prime minister Najib Razak signed about \$34 billion in BRI rail and pipeline deals, many of which were later suspended or scaled back by his successor amid corruption concerns.

Recent trends suggest some recalibration in response to mounting fiscal, economic, and political pressures. China now frames BRI cooperation as greener and of higher quality,²⁹ encouraging stronger environmental,³⁰ social, and financial review.³¹ This has led to tighter risk controls and renewed activity concentrated in advanced energy, metals and mining, and selected manufacturing and technology hubs.³²

Following a decline in investments between 2019 and 2023,³³ China had a record year for BRI engagement in 2024 with more than \$122 billion in construction contracts and investments.³⁴ The first six months of 2025 have already exceeded 2024, with \$124 billion in engagement.³⁵ This increase in investment signals China’s continued interest in pursuing BRI projects that, combined, have strengthened its economic, political, and military reach.³⁶

The Overseas Private Investment Corporation

OPIC was established in 1969 under the Foreign Assistance Act of 1961 and began operations in 1971.³⁷ Designed to operate like a private corporation, its mission was to boost private American investment in developing countries where political instability, expropriation risk, or other barriers limited market entry. It reflected the prevailing conviction at the time that such investment could advance international development and counter the threat of communism.³⁸

To advance this core mission, Congress required that projects have a U.S. nexus.³⁹ They had to be sponsored by a fully or majority U.S.-owned entity or a U.S. citizen. OPIC’s primary tools included direct loans, investment guarantees, and political risk insurance. While prohibited from making equity investments, it provided financing to privately owned equity investment funds, enabling them to attract and deploy equity in developing economies. This approach allowed OPIC to catalyze private equity investment without itself holding equity stakes, in keeping with statutory limitations on direct government ownership of private enterprise.

OPIC's model was demand-driven: officials relied on the private sector to bring proposed projects rather than themselves identifying opportunities for engagement. Congress required the agency to operate on a self-sustaining basis, forcing the agency to guarantee that revenues from premiums, interest, and fees exceeded costs year-on-year.⁴⁰ While these requirements ensured that OPIC returned more to the Treasury than it received in appropriations, they also fostered a culture of caution and constrained its ability to take on riskier projects or to invest in lower-income markets where investments had the potential for greater impact.⁴¹

Over time, partisan politics also shaped OPIC's operations. A conservative Republican bloc in Congress increasingly criticized it as providing "corporate welfare" and periodically pressed for curtailing or ending its authority.⁴² Democratic lawmakers pushed for stronger environmental and labor safeguards, driving the agency's adoption of the International Finance Corporation's due diligence processes.⁴³ OPIC's safeguards raised the bar on the quality of investments, yet its U.S.-nexus rules, self-financing requirement, and partisan scrutiny limited its reach.

USAID's Development Credit Authority

While OPIC facilitated private U.S. investment in developing countries, USAID's Development Credit Authority (DCA) carried out a parallel effort to expand local lending capacity in developing countries, increasing access to finance in underserved markets across a broad range of sectors. Established in 1998, it offered partial loan guarantees of up to 50 percent through local financial institutions to micro, small, and medium-sized enterprises in such countries.⁴⁴ Unlike OPIC, the DCA did not have a U.S.-nexus requirement, which enabled it to support U.S. and foreign enterprises alike.

The International Development Finance Corporation

In merging OPIC and USAID's DCA to establish the DFC, Congress wanted to increase the reach, flexibility, and effectiveness of U.S. development finance, while providing the new agency with a broader toolkit than its predecessors had. Congress did this in several ways.

The BUILD Act raised the DFC's lending cap to \$60 billion, more than double OPIC's cap of \$29 billion.⁴⁵ Congress recognized that the United States could not compete "dollar for dollar" with Beijing's investments.⁴⁶ In 2019 alone, BRI-related investments abroad were estimated at over \$100 billion for the year, made through broad set of actors and tools.⁴⁷ However, by raising the lending cap, Congress aimed to enable greater and more diverse alternatives to Beijing.

Congress also opted for an authorization of seven years for the DFC, compared to OPIC's authorization of five years, providing for slightly greater continuity of operations. The BUILD Act also relaxed the U.S.-nexus requirement, allowing the DFC to work with non-U.S. companies, which enabled the agency to consider a wider range of investments.

One of the greatest departures from OPIC's operating model was Congress's decision to provide the DFC with the authority to take direct ownership stakes in companies or projects abroad, known as "equity authority." This was a first for the U.S. government. Exposure was limited to no more than 30 percent of a project's total equity value to ensure the U.S. government remained a minority investor. The DFC was also authorized to take on higher-risk debt when supported by a substantial policy rationale, and to provide limited technical assistance, typically as a precursor to a DFC investment.

Congress also gave the DFC a broader mission than its predecessors had, making explicit the focus on development and foreign policy objectives. It did not require the agency to operate on a self-sustaining basis, freeing it from OPIC's constraint of generating revenues exceeding costs and enabling the agency to support projects with less certain or lower commercial returns. As with its predecessor, the DFC's obligations are backed by the full faith and credit of the Treasury.

In creating the DFC, Congress wanted an emboldened agency to compete with China, using new tools and operational flexibility to meet global infrastructure demands without replicating the BRI's debt sustainability or governance problems. It positioned the DFC to deliver higher-standard, transparent, and sustainable investment.⁴⁸ With embedded comprehensive safeguards on labor rights, environmental protections, human rights, and financial fraud, the aim was for the DFC to meet local needs while advancing developmental and foreign policy goals. Ultimately, Congress sought to demonstrate that U.S. engagement abroad could be a partnership rather than an extractive transaction.

Strategy: From Competing Mandates to an Industrial Anchor

The DFC's central challenge lies in the execution of its dual mandate. Congress required it to advance development and foreign policy without clarifying how these aims should be balanced or which one prioritized. Development advocates have argued the agency's primary purpose is poverty alleviation and inclusive growth, while China-focused strategists have pressed for prioritizing projects that advance U.S. geopolitical objectives. Consequently, the DFC has struggled with an unsettled operating identity.⁴⁹

This has contributed to sharp swings in its direction across administrations. During the first Trump administration, project selection appeared ad hoc, with emphasis seemingly shaped by the pet priorities of its leadership. The Biden administration is said to have pursued a broad range of projects of all sizes, prioritizing breadth in ways that diluted focus and complicated tradeoffs. Trump’s second administration has so far overemphasized critical minerals extraction⁵⁰ at the expense of a broader sectoral mix that would build partner capacity and U.S. prosperity.⁵¹

Congress has reinforced this uncertainty by introducing exceptions to the DFC’s development mandate. Statutory requirements initially limited the agency to “highly developmental” projects in lower- and lower-middle-income countries, with a certification requirement for upper-middle-income countries.⁵² Under the European Energy Security and Diversification Act of 2019, however, Congress created a carve-out for high-income countries in Europe and Eurasia to reduce energy dependence on Russia. This exemption widened the DFC’s remit but further blurred its purpose.⁵³

Unlike China’s BRI, which pools policy banks, state-owned enterprises, and commercial lenders into a system designed for volume, the DFC is a single institution with a lending cap and relatively small staff. Policymakers across administrations have acknowledged that the United States cannot, and should not, try to compete with the BRI on volume alone.⁵⁴ The DFC’s resource limitations argue in favor of focusing on sectors and geographies where U.S. capital can have an outsized impact.

A more coherent strategic foundation would connect the DFC’s dual mandate to America’s emerging industrial strategy. In recent years, Congress has advanced industrial legislation identifying semiconductors, digital infrastructure, critical minerals, transportation and logistics, health security, and some elements of advanced energy as priority areas of national investment,⁵⁵ each with the potential to advance U.S. economic resilience and shape global supply chains. Grounding the DFC’s portfolio in these priorities would allow the agency to integrate development and foreign policy into a single mission that uses finance to extend the reach of U.S. innovation and productivity, while advancing the prosperity of foreign partners.

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The DFC’s \$190 million loan to Nevada-based Trans Pacific Networks to support the world’s largest telecommunications cable—connecting Singapore, Indonesia, Guam, and the United States—is an example of this approach.⁵⁶ The project backed a U.S.-based firm and expanded digital resilience across a strategic corridor. Similar initiatives, such as critical minerals projects in South America,⁵⁷ show how DFC financing can align U.S. industrial goals with foreign policy and development ones.

Industrial policy is political, though, and its priorities can be revised, even when they have been legislated by Congress. Advanced energy is a case in point: domestic incentives under the Inflation Reduction Act, which was

passed along party lines, have been revised or repealed. The second Trump administration has also withdrawn from multilateral partnerships for transitioning countries to renewables, while exploring advanced energy cooperation abroad in other areas.

That risk, however, does not invalidate the industrial strategy argument. A portfolio organized around a stable set of strategic sectors could provide the DFC with an overarching framework, enabling it to absorb shifts in emphasis across administrations. Anchoring its work to industrial strategy could give greater durability and directional clarity for its efforts, even as the specific project mix evolves.

The Biden administration began such a shift in 2024 by reorganizing the DFC around sectors rather than financial instruments. Focus sectors included ones central to industrial competitiveness, such as energy and critical minerals, alongside traditional development ones like agriculture and access to financial services.⁵⁸ This was an important step toward aligning the DFC with broader industrial strategy. However, the selected sectors largely mirrored its existing portfolio and deal pipeline,⁵⁹ thus reflecting continuity more than strategic intent. Tightening the agency's focus by prioritizing those sectors identified in industrial laws could strengthen its strategic coherence.

Such an approach should include a contingency account for strategically important unforeseeable situations. For example, after Russia's 2022 invasion of the country, the DFC backed Ukraine's agricultural supply chain to sustain its food access and to strengthen global resilience against food shocks from the war.⁶⁰ A contingency account should operate under clear criteria tied to U.S. interests, be time-limited, and include defined exit conditions. Its purpose would be to provide disciplined flexibility for exceptional circumstances without diluting the agency's strategic focus.

Realizing this vision will require institutional change. The DFC inherited OPIC's demand-driven orientation, in which staff responded to proposals from firms rather than originating transactions based on strategic priorities.⁶¹ This reactive posture, combined with DFC's small overseas footprint of less than ten people, has hampered its ability to identify opportunities, to shape markets, and to build pipelines in priority sectors.⁶² An approach grounded in industrial strategy could help change this institutional bias by prompting the DFC to map opportunities across key sectors, to co-design investments with partners, and to mobilize private capital toward industrial goals.

Supply-driven approaches risk overreach and the misreading of market demands, however. The BRI offers cautionary examples of underperforming, capital-intensive assets, such as Hambantota Port in Sri Lanka, where weak governance, environmental and labor concerns, and limited local benefits have led to public backlash.⁶³ An approach prioritizing strategic sectors, however, could capture the strengths of demand-driven finance by providing prospective investors with a clearer roadmap for where they could seek DFC support. Paired with the agency's guardrails of transparent terms, financial reviews, and partner-country ownership, this model could enable investments in strategic sectors while avoiding the pitfalls associated with the BRI's supply-led deployment.

The task before the DFC is to integrate development and foreign policy within a coherent industrial framework that enables continuity, legitimacy, and scale. Focusing on these priorities is the single most consequential reform for the agency proposed here. It would lay the groundwork to transform the agency from its current posture of caution into one of confident competition, delivering tangible benefits for Americans while accelerating prosperity in partner countries.

Speed: How Purpose Can Prevail Over Process

Recommendations: Accelerating DFC Operations

To ensure the DFC can act with the speed required for strategic competition, Congress and the executive branch could consider the following reforms:

- **Streamline environmental and social due diligence:** Allow reliance on due diligence already conducted by peer development finance institutions with equivalent standards.
 - **Modernize labor eligibility:** Eliminate reliance on outdated Generalized Services of Preferences country requirements, using project-level labor standards to determine eligibility.
 - **Adopt risk-based Know Your Customer review:** Allow reuse of such reviews carried within the previous three to five years, with automated monitoring for changes.
 - **Introduce litigation safe harbors:** Provide statutory protection for transactions conducted in accordance with DFC due diligence standards, reducing risk-averse lawyering.
 - **Raise congressional notification threshold:** Raise the threshold from \$10 million to \$100 million, focusing oversight on larger transactions.
 - **Reform upper-middle-income country certifications:** Remove or devolve to the DFC board the requirement for congressional certification in these markets.
 - **Raise the board approval threshold:** Raise the threshold from \$50 million to \$150 million, reserving board bandwidth for significant, market-shaping deals.
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Former U.S. officials cite speed as one of the DFC's most persistent challenges and a key hurdle in strategic competition.⁶⁴ They assert that much of its sluggishness can be attributed to duplicative reviews, prolonged approval and reporting processes, and litigation fears that privilege perfection over timely execution. These factors can be remedied with political will and statutory reforms. By contrast, China has demonstrated that operational speed can be a source of market power. The ability to move swiftly has allowed China to fill financing gaps, shape industrial ecosystems, and entrench its influence.

Research shows that the average infrastructure project financed by China's government between 2000 and 2021 took 2.7 years to complete, compared to five to ten years for similar projects financed by the World Bank and regional development banks.⁶⁵ In 2008, Senegal's then president Abdoulaye Wade said that "a contract that would take five years to discuss, negotiate and sign with the World Bank takes three months when we have dealt with Chinese authorities."⁶⁶ It can take up to two years for DFC projects to receive approval, with potentially longer timelines for the disbursement of financing.⁶⁷

This difference in speed gives China an enduring first-mover advantage. Research has found that Chinese-financed projects raised a recipient country's economic growth rate by nearly one percentage point two years following project approval.⁶⁸ Although the effect faded after five years, the short-term boost created a strong incentive for governing elites operating within short electoral cycles. As a result, leaders in the developing world have routinely expressed a strong preference for working with Beijing over its competitors.

The consequences of delay are significant. In sectors such as advanced energy, digital infrastructure, and critical minerals, timing can determine market entry, technology adoption, and supply-chain configuration. For foreign partners, the distinction between an offer that materializes in months and one that lingers for years can be decisive.⁶⁹ Acceleration, therefore, is essential to ensure that process does not eclipse the realization of the DFC's purpose.

Due Diligence: From Safeguards to Stagnation

The DFC adheres to robust standards set out in its Environmental and Social Policy and Procedures (ESPP),⁷⁰ which are aligned with the International Finance Corporation (IFC) performance standards. These require rigorous project-level assessments to ensure that DFC-supported projects uphold strong worker protections, human-rights safeguards, and environmental standards.⁷¹ U.S. officials tout these standards as an essential differentiating factor from the BRI, which has faced sustained criticism for weak safeguards and extractive practices.⁷²

However, the ESPP have often been implemented in an inflexible manner, with officials applying what stakeholders described as "purity tests" that err on the side of over-caution. Even when peer institutions⁷³ that also have IFC-aligned standards have already conducted equivalent due diligence on a project for co-investment, the DFC requires its own assessments. The result can be "double" or "triple" layers of compliance for the co-investor.⁷⁴

To address this, the DFC could rely on or give determinative weight to the due diligence by co-financiers when those institutions apply similar standards. This approach is already recognized under the Organization for Economic Cooperation and Development framework and modeled in the European Investment Bank's Mutual Reliance Initiative.⁷⁵ It can preserve safeguards while reducing redundant processes that stretch out project timelines.

An Expired Law with Enduring Impact: Country Labor Eligibility and the GSP

The DFC's country labor-eligibility requirements derive from the Trade Act of 1974, also known as the Generalized Services of Preferences (GSP) law, which expired in 2020 but continues to restrict the agency's operations.⁷⁶ Under the BUILD Act, the DFC can only support projects in countries that are taking steps to "adopt and implement laws that extend internationally recognized worker rights," as defined in the Trade Act.⁷⁷

Despite the GSP's expiration, the Office of the U.S. Trade Representative continues to evaluate whether countries meet this standard by referencing their former GSP status. As a result, the DFC remains legally bound to exclude projects in countries that previously lost GSP benefits, irrespective of current labor conditions or compliance with its own project-level labor standards.⁷⁸ This rigid, country-based approach prevents the DFC from supporting projects that could themselves advance labor protections through strong compliance and oversight. Amending the BUILD Act to rely only on project-level labor requirements, rather than expired country-level labor assessments, could enable the agency to maintain robust safeguards while operating more flexibly.

Financial-Review Fatigue: The Strategic Costs of Repetitive Reviews

Financial due diligence requirements add another layer of friction. The DFC's Know Your Customer (KYC) protocols,⁷⁹ rooted in U.S. anti-money-laundering laws and the Financial Crimes Enforcement Network's customer due diligence rules,⁸⁰ are critical guardrails against corruption and misuse of U.S. government finance. Yet their implementation has become unduly repetitive. Firms previously vetted by the DFC are required to undergo the full process anew with each application, even where there has been no material change in their beneficial ownership or management.⁸¹

The DFC should adopt a risk-based KYC review system that would rely on reviews conducted within the previous three to five years, with automated monitoring for sanctions or ownership changes. This modified system would also align its practice more closely with the Financial Action Task Force's principles.⁸² Former officials say that the absence of such flexibility has resulted in unnecessary additional vetting of established counterparts, lengthening timelines without producing commensurate benefits.⁸³

Litigation Fears as Governing Logic

A deep-seated fear of litigation underlies these due diligence requirements. DFC staff worry that approving transactions could bring legal challenges, leading to what one former official describes as an “over-lawyered” culture.⁸⁴

That fear reflects a history of litigation against OPIC and the DFC in U.S. federal courts. OPIC appeared in several federal cases over contracts, arbitration, and employment disputes.⁸⁵ Since 2019, the DFC has been sued twice in high-profile cases focused on processes and transparency: in *National Public Radio v. DFC*, a Freedom of Information Act case over records for a proposed DFC loan, and in *Center for Biological Diversity v. DFC*, which contested the agency’s adherence to the open-meeting procedures of the Sunshine Act of 2010.⁸⁶

The *Center for Biological Diversity v. DFC* case illustrates why litigation fears weigh heavily on the agency. Environmental groups argued that the DFC’s board should be subject to the Physician Payments Sunshine Act of 2010, requiring public meetings and other transparency measures.⁸⁷ The U.S. Court of Appeals for the District of Columbia Circuit ultimately ruled in the DFC’s favor, concluding that it was not covered by the act. Yet even though the DFC prevailed, the case likely reinforced a culture of risk-aversion by demonstrating how routine agency procedures can end up the subject of protracted court battles that consume resources and time.

In other areas of law, Congress has used “safe harbors” to address this problem. A safe harbor can protect individuals and entities from liability, if certain conditions are met. For instance, the Private Securities Litigation Reform Act of 1995 shields companies from lawsuits over good-faith, “forward looking statements” about their business, as long as they include warnings and do not mislead investors.⁸⁸ The Cybersecurity Information Sharing Act of 2015 provides protection to companies from lawsuits when they share cyber-threat data with the government in accordance with the statute.⁸⁹ The Public Readiness and Emergency Preparedness Act of 2005 authorizes broad immunity for vaccines and other measures during a declared health emergency.⁹⁰ Federal employees benefit from similar protection under the Federal Employees Liability Reform and Tort Compensation Act of 1988, which shields them from personal liability for damages or injury committed within the scope of their employment.⁹¹ In these cases, Congress recognized that, absent liability protections, organizations and individuals could act too cautiously.

A carefully designed safe harbor clarifying that transactions conducted in accordance with the DFC’s due diligence requirements are insulated from such lawsuits could reduce over-caution in the agency. It could preserve accountability while reducing the litigation fears that slow down investment decisions, enabling the agency to move more decisively.

DFC staff worry that approving transactions could bring legal challenges, leading to what one former official describes as an “over-lawyered” culture.

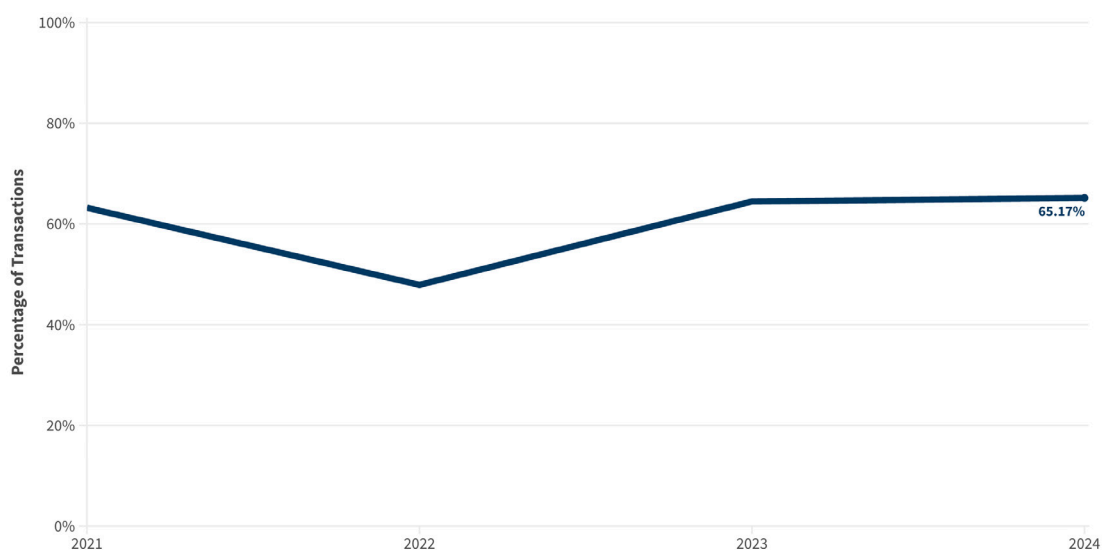
Oversight by Overload: Stifling Efficacy with Exhaustive Reporting

Delays associated with congressional notification requirements are also major impediments for the DFC. By law, it must notify designated congressional committees before making any commitment above \$10 million.⁹² This threshold captures the majority of the agency's portfolio, with more than half of its projects since FY2021 having exceeded \$10 million, including approximately 65 percent of projects in FY2024 (see figure 1).⁹³ Each project at or exceeding \$10 million requires a fifteen-day advanced congressional notification, and it also faces the delays associated with interagency clearances.⁹⁴ A former official says that projects were frequently financed at a level just below this congressional notification threshold to avoid long delays, which had the effect of reducing the ambition of individual projects.⁹⁵

Raising the congressional notification threshold to \$100 million would subject larger and more strategic projects to congressional review and would free staff capacity and reduce delays for smaller ones. Fewer but more consequential notifications would allow Congress's oversight to be more targeted and meaningful.

Congressional certification requirements for projects in upper-middle-income countries create still more delays. Certification that such projects advance development and foreign policy objectives has sometimes stretched for more than a year, often because it remains unresolved in the interagency process.⁹⁶ This deters investments in strategically significant

Figure 1. Percentage of DFC Transactions Greater Than or Equal to \$10 Million U.S. Dollars (FY2021–FY2024)



Note: Total project count includes redacted projects.

Source: "Active Projects Database," U.S. International Development Finance Corporation, June 30, 2025, <https://www.dfc.gov/what-we-do/active-projects>.

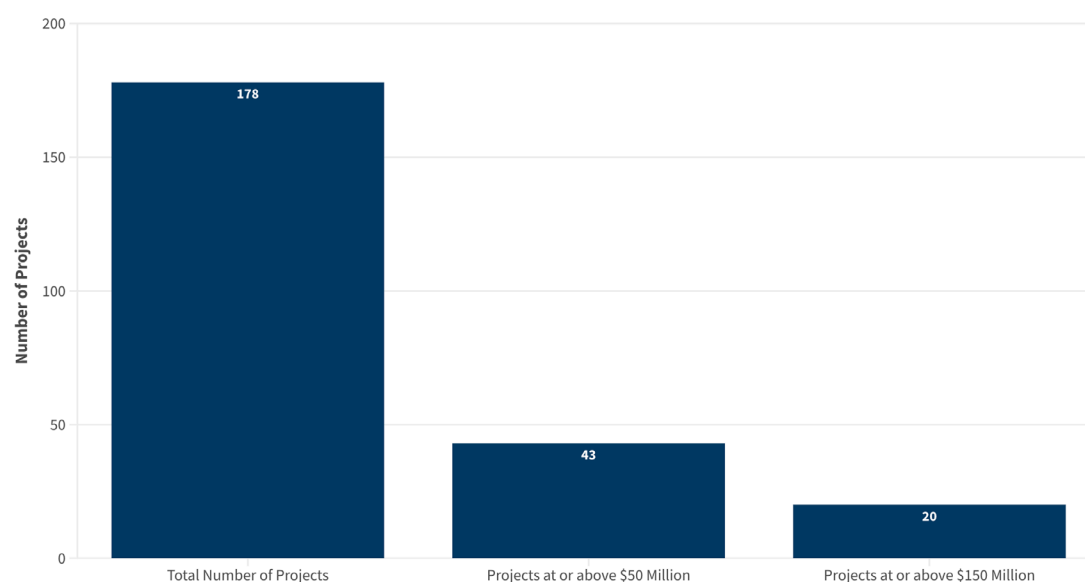
markets. Removing the congressional certification requirement for upper-middle-income countries, or requiring certification by the DFC board instead of Congress, could help expedite their review.

Board Oversight for Strategic Finance

The DFC board is composed of nine members: the DFC’s chief executive officer, the secretary of state, the USAID administrator, the secretary of the treasury, the secretary of commerce, and four nongovernment members with “relevant experience.”⁹⁷ Despite the government seniority of its members, any transaction above \$50 million requires formal board approval.⁹⁸ In FY2024, the DFC committed financing to 178 transactions totaling approximately \$12 billion (see figure 2). Of these, nearly 25 percent were at or above the \$50 million threshold for board approval.⁹⁹ This put a significant number of medium-sized, routine deals onto the board’s docket for additional review.

The result has been a tendency among some companies to request smaller amounts of DFC financing to avoid the threshold.¹⁰⁰ Twenty out of the 178 transactions (11.2 percent) in FY2024 were at \$150 million or more.¹⁰¹ Raising the threshold to \$150 million, as the Government Accountability Office has suggested,¹⁰² would allow the board to concentrate on strategic, transformative projects while empowering staff to execute medium-sized transactions more rapidly.

Figure 2. Fiscal Year 2024 Project Summary



Note: Total project count includes redacted projects.

Source: “Active Projects Database,” U.S. International Development Finance Corporation, June 30, 2025, <https://www.dfc.gov/what-we-do/active-projects>.

Speed as an Industrial Strategy Imperative

These procedural constraints have left the DFC structurally disadvantaged in the competition with China's state-directed finance. Streamlining these processes—by eliminating duplicative labor requirements, allowing reliance on peer due diligence, adopting risk-based KYC review, enacting safe harbor provisions, raising congressional and board thresholds, and eliminating or modifying upper-middle-income country certifications—could preserve oversight and standards while equipping the DFC to act with speed. Among these, permitting reliance on peer due diligence, enabling KYC re-use, and raising board approval thresholds would be the easiest and fastest to implement, since they fall within the DFC's existing authorities. Without these broader reforms, the United States will continue to offer partner countries an alternative defined by credibility but hampered by delay, ceding ground to China in strategic sectors where timing is critical.

Scope: Recalibrating the DFC's Aperture for Strategic Reach

Recommendations: Expanding the DFC's Scope

To equip the DFC with the scope required for strategic competition, reforms could include:

- **Targeted aperture for high-income markets:** Allow limited DFC engagement in high-income markets where strategically important projects may not attract sufficient private capital, subject to portfolio caps (8-10 percent).
 - **Fix equity scoring distortions:** Apply Federal Credit Reform Act (FCRA)-style net present value accounting to better reflect returns and to enable scalable use of equity authority.
 - **Clarify treatment of political risk insurance (PRI):** Exclude PRI from FCRA treatment, enabling fuller deployment of one of the DFC's most consequential instruments.
 - **Enable sovereign and state-owned enterprise (SOE) engagement:** Pilot sovereign lending and expand to support SOEs where projects demonstrably advance U.S. interests.
 - **Flexible use of subordinated debt:** Strike the statutory "substantive policy rationale" requirement to encourage catalytic use of subordinated debt in strategic sectors.
-

Statutory and budgetary restrictions limit the DFC's operational reach and impact. Country eligibility constraints, conservative accounting, and limitations on sovereign engagement prevent the full deployment of its instruments. These limitations force the agency to act with a narrow aperture in a wide-ranging contest.

Country Categories and the Costs of Rigidity

Congress authorized the DFC to operate in lower- and lower-middle-income countries, as defined by the World Bank. It also authorized investment in upper-middle-income countries where the president certifies that this would advance foreign policy and development.¹⁰³ Critics argue that the World Bank's income classifications distort the estimation of the wealth of countries with high income inequality, because they are based on per capita gross national income (GNI). For example, Guatemala is classified as an upper-middle-income country despite having widespread poverty and inequality.¹⁰⁴ As DFC CEO Scott Nathan testified to Congress in 2023, the World Bank and peer development finance institutions do not rely on country income classifications for investment decisions.¹⁰⁵ Certification requirements for upper-middle-income countries can also be lengthy and contested, with current and former officials citing delays of a year or longer due to interagency paralysis.¹⁰⁶

The DFC is also prohibited from investing in high-income countries, with an exception for energy projects in Europe and Eurasia under the European Energy Security and Diversification Act of 2019. Congress created this exception to reduce reliance on Russian energy amid concerns over the development of the Nord Stream 2 gas pipeline.

Ultimately, the BUILD Act's prohibitions exclude some countries where strategically important projects may not attract sufficient private capital without support. Port infrastructure is one example: commercial lenders can deem port dredging and modernization projects too capital-intensive and low-margin to justify investment.¹⁰⁷ This dynamic is particularly evident in the Western Hemisphere.

In testimony before the House Foreign Affairs Committee in 2025, former representative Ted Yoho cited Panama as a high-income country with a vital transit route that is ineligible for DFC support,¹⁰⁸ despite China's significant investment there.¹⁰⁹ Secretary of State Marco Rubio has said that the presence of Chinese-owned ports on the Panama Canal could allow Beijing to slow U.S. naval deployments to Asia following an invasion or blockade of Taiwan.¹¹⁰ Antigua and Barbuda is also ineligible due to being classified as high-income, while the Export-Import Bank of China (China Exim) has provided it with a concessional loan for the St. John's Port Renovation and Extension Project.¹¹¹

Such countries classified as high-income based on their per capita GNI are also exposed to structural constraints such as climate and trade shocks that can increase project risk and payback timelines, which deters commercial lenders. The DFC's engagement in these countries could provide a transparent alternative, de-risking projects for co-investors and securing transportation nodes in the Western Hemisphere.

China has consistently deployed state finance in high-income countries where this serves its clear industrial objectives. For example, in Chile, the China Development Bank extended \$415 million in loans between 2015 and 2019 to a company controlling 23 percent of the telecommunications market, which granted Huawei preferred network partnerships.¹¹² After Chile signed a Memorandum of Understanding with China on BRI investments in 2018, Huawei built in the country a substantial digital footprint that advances Beijing's industrial aims.¹¹³ Huawei Cloud opened a regional office in Chile, which serves as a Latin America hub for its cloud and artificial intelligence services, and constructed multiple data centers in Santiago.¹¹⁴ Entel, the country's leading mobile operator, is deploying Huawei technology to boost 5G access and broadband connectivity throughout the country. In addition, Huawei Marine built a 2,800 kilometers subsea cable linking three regions in southern Chile and expanding internet access.¹¹⁵ These projects have embedded Chinese technology across the country, expanded market access for Chinese firms, and complicated U.S. market access. They demonstrate how Beijing uses targeted finance in high-income markets to advance its industrial power, while current restrictions prohibit DFC engagement.

The Biden and the second Trump administrations recognized the shortcomings of the DFC's country eligibility framework. In 2024, then national security adviser Jake Sullivan suggested shifting to the World Bank's "country of operation" model so that investment decisions would be based on World Bank lending categories that consider factors such as market access to finance, institutional capacity, and vulnerability to economic shocks.¹¹⁶ In his Senate testimony in 2023, agency CEO Scott Nathan said that this could make twelve more countries eligible for DFC financing.¹¹⁷ Critics countered that the proposal would still exclude strategically relevant markets and swap one cumbersome, contested eligibility process for another. They further asserted that the proposal was advanced without a rigorous analysis of its merits or practicality.¹¹⁸ In July 2025, the Trump administration proposed allowing investments in high-income countries.¹¹⁹

Congress has acknowledged the need to expand the DFC's aperture, though partisan divides persist. In September 2025, a bill for a DFC Modernization Act was introduced in the House of Representatives, which would allow investment in high-income countries with a certification that projects further U.S. economic or foreign policy interests.¹²⁰ The Democratic members on the Foreign Affairs Committee voted against it, but there was bipartisan support in the committee for a similar bill in 2024 that had more stringent requirements, including a 10 percent portfolio cap and a mandate to minimize exposure to the "necessary" level to achieve U.S. development and foreign policy objectives.¹²¹

Legislation in the Senate similarly sought to authorize investments in high-income countries, but also added numerous, sometimes redundant, requirements. These include requirements for an advanced list of eligible countries and projects, confirmation that the private sector was given an opportunity to compete for the project prior to DFC engagement, capped portfolio exposure of 8 percent, and demonstration that projects in high-income countries directly counter influence from "foreign countries of concern" like China.¹²² None of these proposals remove certification requirements for upper-middle-income countries.

Duplicative requirements, such as obligating the DFC to prove that a project is a “preferred alternative” to China’s financing, or that the private sector was first given the chance to undertake the project without DFC support, risk imposing needless red tape. These provisions are also redundant since the DFC is already required by law to ensure its projects are “additional” to private capital and advance U.S. foreign policy interests, with strategic competition an explicit priority. Similarly, proposals that mandate DFC support be limited to only the “necessary” level could create vague, subjective standards that invite bureaucratic paralysis. Rather than sharpening oversight, such measures could slow decisions when U.S. finance requires agility to compete in strategic sectors.

A more coherent approach would eliminate duplicative requirements while retaining some essential guardrails. As noted, Congress could remove or devolve to the DFC board the certification requirement for upper-middle-income countries, clearing a path for investment in markets where poverty and inequality remain acute and industrial partnerships could be critical. For high-income countries, a limited aperture—with portfolio caps of 8 to 10 percent—could provide balance. Such an approach would acknowledge that private capital is often available in advanced economies, yet still allow targeted engagement in markets where industrial stakes are high, commercial lenders are deterred, and China is deeply entrenched.

A balanced framework would preserve congressional oversight, ensure that the DFC’s core mission does not drift, and provide the flexibility to engage strategically in advanced economies.

From Grants to Growth: Fixing Equity Scoring

The BUILD Act provided the DFC with a new tool: equity authority. This allows the DFC to take ownership stakes in companies and projects, or to provide indirect support through funds, bolstering early- and growth-stage firms in markets where debt financing is limited or inappropriate. The act capped the DFC’s equity exposure at 30 percent of any individual project and no more than 35 percent of the agency’s total portfolio.¹²³ It further required that equity investments serve defined development and foreign policy purposes, such as addressing market failures or transforming local conditions in developing markets.

The potential of the DFC’s equity authority is already clear. For example, the agency has made a \$25 million equity investment in a Southeast Asia-focused venture capital fund supporting technology and committed to \$30 million in the private company TechMet to support critical minerals development,¹²⁴ both of which advance industrial strategy. The capital fund invests in early- and growth-stage technology firms, strengthening innovation and digital platforms in a region critical to diverse U.S. supply chains. TechMet strengthens critical minerals supply chains in Western-aligned markets, providing materials essential for sectors including advanced energy and artificial intelligence.¹²⁵

However, Congress did not specify how equity-authority commitments should be accounted for in the federal budget. Unlike loans and guarantees, which are governed by the Federal Credit Reform Act (FCRA) of 1990, there was no statutory framework for the budgeting of equity at the time of the BUILD Act's passage.¹²⁶ Legislators did not want to create a new budget regime for a single agency.¹²⁷ In the absence of legislative direction, the Office of Management and Budget (OMB) adopted the most conservative approach possible, scoring equity as if it was grant assistance.¹²⁸ Under that accounting, every dollar of equity is treated as a permanent loss to taxpayers, regardless of whether a return is realized over the long term.

This significantly undervalues equity's revenue potential. Although equity is inherently riskier and less predictable than debt, the experience of peer development finance institutions shows that diversified portfolios do not result in total loss over time. For instance, a 2017 study by the Inter-American Development Bank found that equity investments provided greater returns than loans across development finance institutions over the long term.¹²⁹ The Inter-American Investment Corporation reported average annual equity returns of about 7 percent between 2001 and 2015, while institutions such as the Dutch development bank FMO and the European Bank for Reconstruction and Development achieved double-digit gains prior to the 2008 financial crisis.¹³⁰ Although equity returns faced higher volatility tied to macroeconomic conditions, the study concluded that equity portfolios overall generated positive long-term gains that outpaced debt.

The OMB's accounting approach to equity severely constrains the DFC's ability to deploy this tool at scale and misrepresents the actual financial risk involved. Successive administrations have recognized this problem and have proposed alternatives to Congress. The Biden and the second Trump administrations proposed establishing an equity revolving fund of \$2 and \$3 billion, respectively, which would permit the DFC to recycle realized returns rather than remit them to the Treasury.¹³¹ Such a mechanism would not resolve the underlying scoring distortion, but it could reduce opportunity costs by preserving capital for future transactions. Congress is considering this approach, although legislators have expressed skepticism about providing the money required for the fund's capitalization.¹³²

Another proposal would apply an FCRA-style treatment to equity. The FCRA fundamentally reshaped how the federal government accounts for credit programs.¹³³ Prior to its passage, the budget recorded the cost of a loan as the outlay minus repayments in a single fiscal year, while guarantees were only budgeted for when defaults occurred. This practice incorrectly calculated the long-term costs of each instrument and created a bias toward guarantees. The FCRA created a framework based on the "subsidy cost" of an instrument—the estimated long-term cost of a loan or guarantee to the government, calculated on a net present value basis. The subsidy reflects the net present value of the differential between projected outflows—comprised of loan disbursements and expected defaults—and projected inflows from repayments, interest, and fees, discounted to account for the time value of money. This shift enabled the budget to capture the real cost of loans and guarantees and brought credit programs into alignment with other forms of federal spending.

Applying an FCRA-style framework to equity would mean scoring investments against their expected net cost over time rather than their face value. In 2021, Representative Joaquin Castro led a bipartisan letter urging the Biden administration to work with Congress to develop such a fix.¹³⁴ The 2024 House bill for a DFC Modernization and Reauthorization Act proposed amending the BUILD Act to apply the FCRA to equity, allowing for cost calculations to be made based on the net present value of a particular investment. Subsequent legislation in the House authorized a revolving equity fund instead. In 2023, Senators Chris Coons and John Cornyn introduced the Enhancing American Competitiveness Act, which proposed a similar approach, requiring equity to be scored on a net present value basis without invoking the FCRA explicitly.¹³⁵

Each reform option carries advantages and limitations (see table 1). A revolving fund would provide near-term flexibility but might lead to risk-averse investing to ensure returns over a long time horizon. Realizing sufficient returns to recapitalize the fund could take a decade or more, given that equity exits are inherently dependent on market conditions.¹³⁶ Congress would also need to capitalize the revolving fund and members have expressed resistance to doing so.¹³⁷ On the other hand, an FCRA-style fix would directly address the scoring problem and bring U.S. practice in line with that of peer development finance institutions, but this faces political obstacles.¹³⁸ The Senate Budget Committee has resisted permitting other committees to set precedents on budget scoring,¹³⁹ and some Democratic members remain concerned that such a change could spill over into domestic equity-related programs targeting low-income communities.¹⁴⁰

Even accounting for these political headwinds, the technical solution is straightforward. The DFC could take a net present value approach, modeled on the federal government's measurement of the costs of loans and guarantees under the FCRA. This would mean estimating returns the DFC expects to earn from an equity investment, such as dividends or proceeds when selling its stake, and subtracting any anticipated losses. Future losses or returns would then be discounted back to today's dollars, using a standard Treasury rate adjusted for risk. The resulting subsidy cost would represent the true long-term cost of the equity investment to the taxpayers, not the full up-front cost, as the OMB's directive currently assumes. The DFC could also look to the cost calculations of peer development finance institutions using similar models.

By incorporating these kinds of assumptions into its budget scoring, the DFC could better capture the real cost of equity, which would enable larger, more strategic investments without requiring new appropriations. This would be the most impactful change Congress could make to bolster the agency's financial toolkit. Absent such reform, the DFC will remain constrained in deploying equity, inhibiting its ability to compete with the scale and flexibility of China's state-directed finance.

Table 1. Comparing Budget Treatments for DFC Equity Investments

Approach	How The Budget Treats A \$100 Million Equity Investment	Time Horizon For Returns	Resulting Impact
Current Active	Entire \$100 million scored as a permanent grant. No recognition of potential returns.	None. Investment treated as full loss at disbursement.	The DFC can fund only a limited number of equity deals. Discourages fiscally risky investments despite potential profitability.
FCRA-Style Proposed	Only the expected long-term net cost is scored. If projected returns are \$90 million, the budget cost is \$10 million.	Returns to Treasury recognized over five to ten years.	Provides accurate subsidy estimates. Frees substantial budget space for larger or more numerous investments without new appropriations.
Revolving Fund Proposed	Still scored as a grant up-front but allows recycling of realized returns into new investments instead of returning to Treasury.	Gains materialize gradually over five to ten years as projects mature.	Creates a self-replenishing capital pool that expands the DFC's capacity over the long term, though scoring remains grant-based.

Political Risk Insurance: From Inflated Burden to Balanced Use

Political risk insurance (PRI) is one of the DFC's most valuable financial tools because it directly mitigates the noncommercial risks, such as asset seizure and political violence, that deter private investors from entering foreign markets. The BUILD Act broadened the narrower insurance authority of OPIC—which Congress had restricted to coverage for currency inconvertibility, expropriation, and political violence—to permit the DFC to insure against “any or all political risks” and to extend protection to debt and equity.¹⁴¹ This provides the DFC with a powerful lever to mobilize private investment into risky markets.

The Biden administration illustrated the tool's potential with the deployment of PRI in innovative “debt-for-nature” swaps in Belize, Ecuador, El Salvador, and Gabon.¹⁴² In El Salvador, for example, the DFC provided \$1 billion in PRI to support J.P. Morgan's restructuring of the country's sovereign debt, reducing outstanding obligations and freeing an estimated \$350 million for conservation of the Río Lempa watershed.¹⁴³ PRI has also been deployed to advance industrial priorities. For instance, the DFC has used it to support investments in renewable energy and critical minerals projects, including a mining export facility in Africa.¹⁴⁴

PRI is a major component of the DFC's portfolio. In FY2023, it accounted for about \$7.3 billion of a portfolio of about \$41 billion—nearly 18 percent of the agency's exposure.¹⁴⁵ Between 1971 and 2024, OPIC and the DFC paid 311 claims totaling approximately \$1.06 billion, later recovering \$1.02 billion of that amount.¹⁴⁶ Therefore, 96 percent of claim value paid was recovered. During that period, the PRI program earned \$950.2

million more in claims than it initially paid. Yet, despite the scale of the PRI program and its consistent record of revenue generation, institutional restraints suppress its use. Those are rooted in budgetary treatment. While the BUILD Act tied loans and guarantees to the FCRA, it was silent on PRI. In 2024, the Department of Justice's Office of Legal Counsel (OLC) resolved that ambiguity by issuing a binding opinion that if PRI covers a DFC-issued loan, the FCRA also applies to it. This means the DFC must reserve budget funds up-front for the expected cost of every debt-related insurance policy; that is, booking a subsidy cost.

Political risk insurance is one of the DFC's most valuable financial tools because it directly mitigates the noncommercial risks that deter private investors from entering foreign markets.

The OLC opinion imposed a heavier budget burden on the DFC than the one borne by OPIC, when debt-related PRI was accounted for more flexibly. OPIC had historically managed PRI through a revolving fund capitalized by premiums, fees, and investment income, paying out liabilities only when claims arose.¹⁴⁷ Between 2004 and 2018, OPIC reported twelve debt-related PRI transactions.¹⁴⁸ Of these, four were exempt from the FCRA, reflecting a more flexible, case-by-case treatment than the current blanket subsidy requirement.

By requiring the DFC to treat debt-related PRI as an immediate cost rather than a contingent one, federal accounting rules artificially inflate its budgetary burden and constrain its use. In FY2023 and FY2024, the DFC did not draw from the Treasury to cover any PRI liabilities, which shows that the program did not pose a fiscal burden on taxpayers.¹⁴⁹ Congressional leaders have raised concerns about the application of the FCRA to PRI as well. The bill introduced in the Senate in 2023 for an Enhancing American Competitiveness Act included a "sense of Congress" provision that PRI should not fall under the FCRA. Likewise, Senator Chris Van Hollen has challenged the OLC's restrictive interpretation, arguing that PRI should be treated as a contingent liability.¹⁵⁰

Excluding PRI from FCRA treatment carries some risks. It may, for instance, underestimate the true cost of insurance to the federal budget. OPIC's final management report stated that in FY2019 the agency had achieved its forty-second consecutive year of revenues exceeding costs, partially attributing this success to consecutive years of net negative insurance program costs. The report further noted that PRI losses are "high impact" and "low probability."¹⁵¹ Yet large claims arose when political instability undermined major investments. For example, OPIC paid over \$110 million in PRI claims linked to the Dabhol power project in India when the venture collapsed amid political and contractual disputes,¹⁵² and \$50 million to Ponderosa Assets after Argentina's expropriation measures triggered coverage.¹⁵³ More recently, the case of Ukraine has highlighted the scale of potential systemic liability. In June 2024, the DFC announced \$357 million in new PRI commitments in the country.¹⁵⁴ These cases illustrate that, while PRI is self-financed, exempting it from the FCRA without adequate reserves could leave the government vulnerable to underprovisioning for sudden, large claims. Robust modeling and setting aside adequate reserves remain vital, if the instrument is treated as self-financing rather than as a subsidy.

Clarifying that PRI is not subject to the FCRA, while maintaining sufficient reserves and rigorous risk models, offers a path forward. Given PRI's consistent history of revenue generation, such a clarification would likely not increase taxpayer exposure. Instead, it could allow the DFC to expand its use of PRI as intended, providing more coverage for private investors and enabling greater deployment of PRI areas central to U.S. competitiveness.

Structural Blind Spots: The Limits of Avoiding Sovereigns and State Enterprises

In many parts of the world, the state remains the principal economic actor. Sovereign lending—the provision of government-to-government loans—and engagement with state-owned enterprises (SOEs) are indispensable tools in development finance. A World Bank study found that 80 percent of infrastructure investment in developing countries in 2017 was publicly financed, two-thirds of which through SOEs and the rest as on-budget government programs.¹⁵⁵ Strategic sectors such as energy, transport, telecommunications, and critical minerals often depend on public financing or ownership structures making sovereign or SOE participation unavoidable. In these markets, the private sector often seeks public commitments, sovereign guarantees, or policy signals that mitigate risk and create commercially viable conditions for investment.¹⁵⁶ Enabling the DFC to provide loans to governments and to engage more with SOEs would broaden its reach and enable the United States to shape strategic industries.

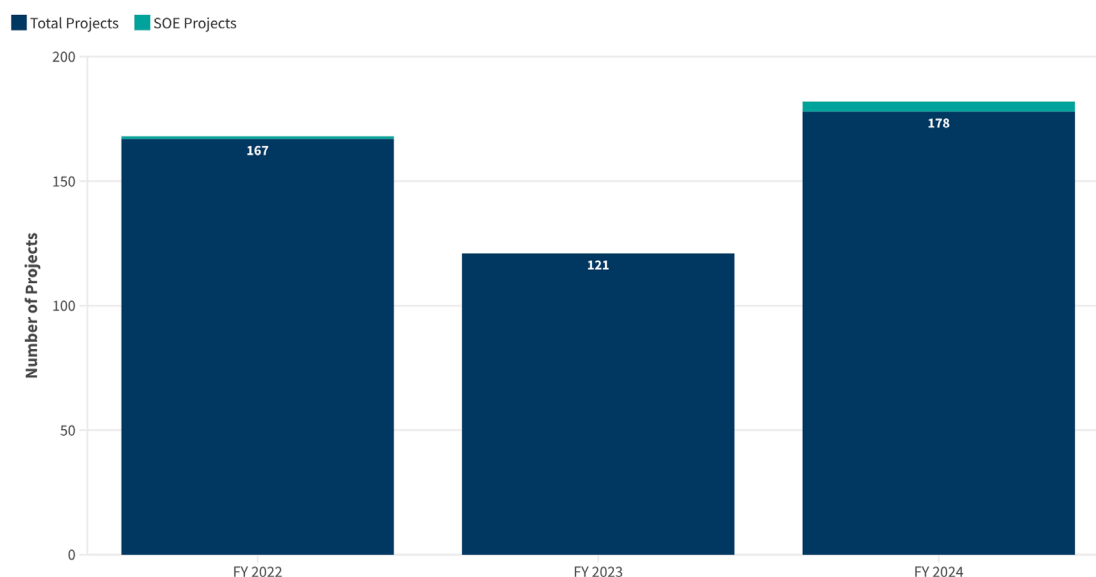
However, the DFC was not designed for this reality. The BUILD Act was crafted to catalyze private investment in developing economies and, accordingly, did not authorize the DFC to provide sovereign loans. The act permits limited engagement with “qualifying sovereign entities” but the DFC has narrowly interpreted this provision.¹⁵⁷ Confusion over the scope of this authority persists throughout the government, including among senior officials when encountering questions about the DFC's ability to partner with SOEs.¹⁵⁸

Analysis of the DFC's investment activities shows its limited engagement with SOEs (see figure 3). A review of its Active Projects Database for FY2022 to FY2024 indicates that only a handful involved SOEs.¹⁵⁹ This leaves the agency structurally disadvantaged in markets where state actors dominate.

Strategic sectors such as energy, transport, telecommunications, and critical minerals often depend on public financing or ownership structures making sovereign or SOE participation unavoidable.

In contrast, China's development financing routinely channels resources to governments and SOEs. In 2023, for instance, 63.4 percent of China's loans to Africa were sovereign loans with an additional 8.4 percent to SOEs.¹⁶⁰ The implications are significant. China's regular loans and finance to governments and SOEs distort markets and entrench its strategic influence in key sectors. For example, in 2022, China Exim provided a \$66 million sovereign loan to the Solomon Islands for building 161 Huawei-supplied mobile

Figure 3. DFC Engagement with State-Owned Enterprises (FY2022–FY2024)



Note: Total project count includes redacted projects.

Source: “Active Projects Database,” U.S. International Development Finance Corporation, June 30, 2025, <https://www.dfc.gov/what-we-do/active-projects>.

communication towers.¹⁶¹ In 2024, it signed a \$15 billion financing agreement with Guinea’s government for a railway and deep-water port needed to export iron ore, in which the latter retained an equity stake.¹⁶²

China often provides this lending on opaque terms, disadvantaging borrowers. Reviews of contracts signed by its state policy bank with sovereign and SOE borrowers highlight key concerns, including strict confidentiality clauses that limit public disclosure of terms, the extensive use of formal and informal collateral arrangements to maximize repayment potential, and “No Paris Club” clauses that exclude Chinese debt from multilateral restructuring processes. These conditions are uncommon among official lenders.¹⁶³ According to one study, nearly half of China’s loans to governments or SOEs are backed by collateral, which means that borrowers must commit future revenues or maintain deposits in Beijing-controlled accounts to guarantee repayment.¹⁶⁴ These special accounts enable China to get repaid first, even if the borrower is in crisis, constraining the recipient government’s control of its own revenues and complicating multilateral coordination for debt relief. Concerns about China’s lending practices coincide with broader ones, including from the World Bank, which has warned that the BRI’s international economic corridors carry elevated debt, governance, environmental, and social risks.¹⁶⁵

Development finance institutions in democratic countries offer an alternative model. Australia and Japan, for instance, provide sovereign loans and support SOEs with transparency and strong guardrails.¹⁶⁶ Australia's Infrastructure Financing Facility for the Pacific, a financing initiative within the Department of Foreign Affairs and Trade, partners with governments and the private sector in the Pacific to finance infrastructure. Australia has provided an AUD 521.4 (335.9 USD) million loan and an AUD 100 (64.4 USD) million grant to Papua New Guinea Ports Corporation Ltd, an SOE, to deliver upgrades to port infrastructure across Papua New Guinea that would lower logistics costs.¹⁶⁷ It has also provided an AUD 15.1 (9.7 USD) million loan and an AUD 17.3 (11.1 USD) million grant package to the government of the Solomon Islands to support hydropower, so as to enable the provision of cheaper and more reliable electricity.¹⁶⁸ In Palau, Australia has signed financing agreements with the government and an SOE to construct an undersea fiber optic cable to build up communications infrastructure.¹⁶⁹

Similarly, Japan's Bank of International Cooperation (JBIC) finances sovereign counterparts and SOEs. In India, it extended a JPY 20 (0.1 USD) billion loan to the state-owned hydropower company.¹⁷⁰ JBIC also established a JPY 120 (0.8 USD) billion credit line for India's Power Finance Corporation, an SOE, to fund renewables, next-generation energy, and efficiency.

In financing governments and SOEs, Australia and Japan continue to apply standards consistent with the International Finance Corporation's across a project's cycle. This includes extensive financial reviews and other safeguards,¹⁷¹ addressing environmental risks, potential displacement and resettlement, and forced or child labor.¹⁷² Both governments disclose the financing terms and program implementation. Additionally, support is often paired with local capacity building. Australia's Papua New Guinea ports program, for instance, established a joint implementation unit between the two countries that sought to improve local procurement and contract management.¹⁷³ In sum, the financing of sovereigns and SOEs by peer institutions in democratic countries can operationalize and model higher standards while building enduring capabilities in partner governments and SOEs.

Recalibrating the DFC's aperture would not mean abandoning the BUILD Act's private sector orientation. Congress could pilot a sovereign lending program, subject to national interest determinations. The DFC could also maintain a flexible policy of financing SOEs, consistent with its due diligence requirements, when projects advance U.S. interests. Such an adjustment would align the United States with the realities of markets where the state remains indispensable. It would allow the DFC to be a credible counterweight to Chinese finance in state-dominated sectors, ensuring that U.S. capital can shape, rather than bypass, the infrastructure underpinning global industrial competition.

The Case for Flexible Subordination

The BUILD Act requires that the DFC's loans or loan guarantees be provided on a senior or equal basis unless a "substantive policy rationale" justifies otherwise. Intended as a safeguard, this requirement has instead fostered institutional caution.

Subordinated debt occupies a critical middle layer in the capital stack, below senior debt but above equity, absorbing losses after senior debt in the event of a default.¹⁷⁴ This carries additional risk and higher potential returns. By absorbing first losses, subordinated tranches improve expected recovery for senior lenders, lowering their risk profile. This signaling can attract investors to strategic sectors that might otherwise remain underfinanced due to risk.

Congress's intent in requiring a substantive policy rationale was to safeguard the repayment of the DFC's debt. Yet the statutory presumption against its use has discouraged the agency from deploying it at scale. A report by the DFC's Office of Inspector General in 2023 found that the DFC "rarely used" and lacked a policy for subordinated debt. It found that subordinated loans accounted for twelve projects totaling \$926 million of the \$35.4 billion in projected exposure, or 2.6 percent of the agency's portfolio as of June 2023.¹⁷⁵

Peer development finance institutions, in contrast, illustrate the catalytic potential of subordinated debt. Germany's KfW has supported the Lake Turkana Wind Project, the largest wind farm in sub-Saharan Africa, with a €20 (23 USD) million subordinated loan that helped crowd in €623 (717.3 USD) million from commercial banks and multilateral lenders.¹⁷⁶ The Netherlands' FMO has provided subordinated debt to support renewable energy in Africa, with a more flexible repayment schedule to buffer price fluctuations. FMO reported that this protection sufficiently de-risked the senior tranche to attract a commercial lender to help close the capital stack.¹⁷⁷ Japan's JBIC has deployed subordinated loans since 2005, beginning with a hydropower project in the Philippines designed to attract "innovative financing" from new sponsors.¹⁷⁸ Today, it says it intends to use subordinated debt in sectors including transport, telecommunications, and renewable energy.

Each of these cases illustrates how subordinated debt can bridge financing gaps in strategic sectors where risk deters commercial lenders. Enabling the more flexible use of this instrument, by striking the substantive policy rationale requirement or by establishing internal policies, could expand the DFC's ability to mobilize private capital. Scaling its use could strengthen the agency's role as a catalyst for investment in strategic industries, while aligning with the BUILD Act's original intent of mobilizing capital in markets of geopolitical significance. Without this, subordinated debt will remain an underutilized instrument.

**Peer development
finance institutions
illustrate the
catalytic potential of
subordinated debt.**

Scale: Lifting the Ceiling on Strategic Ambition

Recommendations: Building Up the DFC's Scale

To enable the DFC to operate at the scale demanded by strategic competition, Congress and the executive branch could:

- **Raise portfolio and project ceilings:** Raise or remove the \$60 billion statutory cap, aligning capacity with peer development finance institutions and allowing larger, more numerous investments in strategic industries. Raise or remove the internal \$1 billion single-project exposure limit.
 - **Expand overseas presence:** Deploy multidisciplinary field teams in key regional hubs to source deals, build relationships, and identify bankable projects aligned with U.S. priorities.
 - **Institutionalize market mapping and portfolio analysis:** Require staff to conduct proactive sectoral and regional analysis, counterpart identification, and pipeline development.
 - **Recruit specialized talent:** Increase hiring of sectoral and project finance experts, using administratively determined positions to attract competitive talent.
 - **Ensure institutional permanence:** Make the DFC a permanent agency, while providing for periodic reviews, to strengthen credibility with partners and investors.
-

The DFC's limited scale hampers its impact. Despite a strong financial record and growing demand for strategic investment, it remains limited by a low statutory portfolio ceiling, insufficient field and analytical capacity, and a temporary mandate. The DFC's performance in generating more revenue than its gross costs in consecutive fiscal years shows that expansion would not necessarily require new appropriations. To maximize the agency's potential, the three foundations of institutional scale must be addressed: capital, by lifting or eliminating the portfolio ceiling; human capacity, by increasing overseas presence and sectoral expertise; and permanence, by establishing a mandate capable of supporting long-term investments.

Portfolio Cap: A Ceiling That Undermines Catalytic Scale

The BUILD Act established for the DFC a statutory portfolio cap of \$60 billion,¹⁷⁹ which was more than double OPIC's \$29 billion cap.¹⁸⁰ This was a significant expansion of U.S. development finance capacity. Five years after its establishment, however, the agency total portfolio exposure reached \$48.9 billion, following a record of approximately \$12 billion in new commitments in 2024.¹⁸¹ It therefore has little capacity to support additional large-scale transactions.

Crucially, the DFC's financial performance suggests that expanding its balance sheet need not increase costs to the U.S. taxpayer. It generated more revenue than its gross costs in FY2023 and FY2024.¹⁸² This record shows that a higher portfolio ceiling would not necessarily require additional appropriations. Raising or removing the cap is therefore less about fiscal burden than strategic capacity and leadership.¹⁸³

Since 2013, China has invested more than \$1.3 trillion into BRI projects in over 150 countries.¹⁸⁴ This is anchored by its two state policy banks—the China Development Bank (CDB) and China Exim—which operate without portfolio ceilings. At the end of 2024, the total assets of the CDB and its subsidiaries neared \$2.6 trillion.¹⁸⁵ In that same year, China Exim's assets exceeded \$900 billion.¹⁸⁶ While these institutions differ in mandate and longevity from the DFC, the disparity in scale reflects a broader asymmetry in capacity between the United States and China.

For the United States, the consequences of this are profound. Industrial sectors central to its economic security require financing on a scale that could quickly consume the DFC's limited balance sheet. The agency's portfolio cap introduces further uncertainty for private co-investors about whether it can join follow-on tranches or transactions, undermining the catalytic role Congress intended it to play. Additionally, the agency has established a per project exposure cap of \$1 billion with respect to loans, guarantees, and insurance products.¹⁸⁷ By contrast, the absence of ceilings on CDB and China Exim lending allows Beijing to underwrite multi-billion-dollar projects in strategic sectors across long time horizons.

Congress is taking steps to address these imbalances, considering portfolio cap increases of up to \$250 billion.¹⁸⁸ Some have also suggested that Congress could eliminate the portfolio cap altogether, instead exercising oversight through the appropriations and notifications processes.¹⁸⁹ The DFC should also raise or remove its administrative single-project exposure limit of \$1 billion to support multi-billion transactions in priority sectors.

Given the DFC's record of revenues exceeding costs, these changes could allow the United States to compete credibly in global markets without additional taxpayer dollars.

Human Capital: Undercapacity in Strategic Markets

To deploy capital strategically, the DFC must be equipped with the right human capital. By the end of 2024, it had grown to approximately 700 staff; a number that has since decreased to 529 under the second Trump administration. Less than ten staff are posted overseas, embedded in U.S. embassies and consulates across Africa, the Indo-Pacific, and Latin America.¹⁹⁰ This has meant that one or two officers have held responsibility for sourcing deals, engaging with host governments, and managing transactions across large and complex regions. The DFC's Office of Inspector General has highlighted persistent disparities in the agency's overseas staffing, pointing to critical gaps in field sourcing and workforce capacity that limit the agency's ability to compete with its peers.¹⁹¹ The CDB, for instance, has a staff of about 10,000, with eleven offices overseas.¹⁹²

The legacy of OPIC compounds these challenges. Congress designed it to be demand-driven and self-sustaining, requiring revenues to exceed costs.¹⁹³ OPIC was also organized by financial instruments, such as loans or insurance products. That orientation has led to the DFC being inherently risk-averse and predisposed to service projects brought to it rather than seeking strategic opportunities. While the Biden administration reorganized the agency's workforce around sectors instead of financial instruments and the BUILD Act removed the statutory requirement that it be self-sustaining, elements of OPIC's culture have endured.¹⁹⁴ Former officials describe an agency that is reactive rather than proactive, extremely cautious about litigation and reputational risk, and slow to develop project pipelines in strategic sectors.¹⁹⁵

Former officials also note additional weaknesses, including a lack of systematic market-mapping, insufficient depth in project finance and regional expertise, and an absence of systematic analysis of portfolio performance across sectors and regions.¹⁹⁶ As a result, the DFC has limited capacity to identify potential partners or bankable projects in advance. It is also routinely pressured to deliver "diplomatic deliverables" on compressed timelines, often before deals are viable.¹⁹⁷ This practice creates reputational risk if projects stall.

Addressing these deficiencies requires deliberate investment in four areas. First, the DFC should expand its overseas presence by fielding multidisciplinary teams in regional hubs. Second, it should have staff trained to map markets and monitor portfolio performance. Third, the agency should prioritize hiring sectoral and project-finance experts capable of structuring complex transactions. Administratively determined positions, as requested by the Biden and Trump administrations, provide a vehicle for recruiting this talent competitively.¹⁹⁸ Finally, and most importantly, the DFC requires leadership that can transform its culture. Such leadership should incentivize calculated risk-taking and establish priorities linking investments to U.S. industrial goals.

The DFC requires leadership that can transform its culture. Such leadership should incentivize calculated risk-taking and establish priorities linking investments to U.S. industrial goals.

Permanence: A Long-Term Mandate Trapped in Short-Term Politics

The DFC is mandated to provide long-term finance but is bound by its short congressional authorization. As a result, it is structurally disadvantaged in competing for large-scale, strategic investments that require decades of certainty.

The DFC authorization expired seven years following the law's passage. In 2025, Congress was unable to reauthorize the agency by its October deadline, preventing the agency from undertaking any new investment activity, pausing project development, and putting ongoing activities at risk. Congress later provided a short-term extension, as it weighed a longer-term reauthorization. This demonstrates the fragility of the DFC's mandate, resulting in reputational harm with co-investors and foreign partners.

Private sector actors consistently identified impermanence and political inconsistency as key challenges in working with the DFC. Interviewees emphasized that the agency's temporary mandate undermines planning, weakens credibility, and could deter long-term investments in capital-intensive sectors.¹⁹⁹ The DFC's Office of the Inspector General has also stated that the need for reauthorization presented "significant external and internal challenges," including complicating investment processes and potentially diverting investment opportunities to peer competitors.²⁰⁰ Similarly, the Chamber of Commerce has urged Congress to ensure continuity, emphasizing the importance of reliability.²⁰¹ The Center for Global Development has argued that co-investors weigh the durability of U.S. engagement when deciding whether to partner with the DFC.²⁰²

The DFC's peer institutions are not subject to legislative renewal. China's two state policy banks are permanent entities under the State Council.²⁰³ Both were established in 1994 and provide sizable, multi-year infrastructure investments.²⁰⁴ Policy banks in democratic countries—such as Japan's JBIC,²⁰⁵ the Export-Import Bank of Korea,²⁰⁶ FinDev Canada,²⁰⁷ the European Investment Bank,²⁰⁸ and British International Investment²⁰⁹—are also not subject to periodic reauthorization. Their permanence enables them to commit to multi-decade projects and form partnerships on a foundation of stability (see table 2).

Congressional opposition to relinquishing oversight is a significant hurdle to making the DFC permanent.²¹⁰ A potential approach would be to make it permanent while mandating periodic assessments; for example, through a statutory requirement to review its authorities every five years. Another option would be to link authorization to the agency's portfolio ceiling. As the DFC nears its statutory cap on total commitments, Congress would have to pass new legislation to raise that ceiling before the agency could take on additional projects. If Congress chose not to act, the DFC could not approve new commitments that increased its total exposure until existing projects matured or were sold. Such mechanisms could preserve legislative oversight while eliminating the risk of termination that undermines investor confidence.

Table 2. Comparing Permanence in Development Finance Agencies

Institution	Permanence
Development Finance Corporation	Temporary (established in 2018, seven-year authorization under BUILD Act, extensions required)
China Development Bank	Permanent (State Council policy bank since 1994)
Japan Bank for International Cooperation	Permanent (established 1999, successor to Japan Export-Import Bank and the Overseas Economic Cooperation Fund)
European Investment Bank	Permanent (EU Treaty-based institution, since 1958)
British International Investment	Permanent (established 1948, UK government owned)
Export-Import Bank of Korea	Permanent (established 1976, state-owned bank)

Conclusion: Toward an Architecture of Industrial Statecraft

Congress created the DFC recognizing that the United States needed stronger instruments to compete with China’s state-directed finance. In the seven years of its initial authorization, the agency has demonstrated how development finance can advance U.S. industrial strategy, foreign policy, and development objectives simultaneously.

Yet the DFC’s record to date has also revealed its limitations. A dual mandate without a durable anchor has inhibited strategic focus and continuity. Overzealous due diligence and oversight processes have prevented the agency from acting with speed. Accounting flaws have suppressed the use of some of its most consequential financial tools. Prohibitions on sovereign lending and restrictions on country eligibility narrow its reach. Low portfolio ceilings, staffing limitations, and a temporary mandate have further impeded its ability to compete at scale.

The DFC was built to be cautious, but caution is a losing strategy in a world where speed, scale, and industrial alignment define competitiveness. Addressing these obstacles would improve its capacity to mobilize capital and position it as a durable instrument of U.S. power, aligned with long-term U.S. industrial priorities capable of shaping global markets.

At a more fundamental level, however, the DFC's challenges expose a dilemma that extends beyond any single government agency: the United States lacks a coherent framework for integrating its domestic industrial goals with its international economic instruments and institutions.

This gap requires a new organizing concept: industrial statecraft. Industrial statecraft would focus on the organization of the country's economic and international affairs institutions to advance its industrial strategy, linking what it builds at home to what it enables abroad. Unlike the coercive elements of economic power such as sanctions, tariffs, and export controls, industrial statecraft would privilege creation and construction—shaping markets through investment, production, and innovation.

Reforming the DFC is one critical piece of this broader challenge. A DFC capable of operating with permanence, speed, and strategic clarity would demonstrate how development, diplomacy, and industrial strategy can be fused into a coherent framework of global economic leadership.

The work of the U.S. government is too often held hostage by short-term political thinking. The strategic contest ahead demands a longer view. A modernized DFC could form the basis of an enduring architecture of industrial statecraft—one capable of shaping markets, building partnerships, and advancing long-term prosperity.

About the Author

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