July 2025

Unlocking DFC:
Priorities for Reform

CLIMATE LEADERSHIP COUNCIL
CENTER FOR CLIMATE & TRADE

OVERVIEW

Unlocking DFC: Priorities for Reform

In today's shifting global economy, emerging markets will drive the majority of demand growth over the next decade. Yet American industries are losing ground in these regions, often to state-owned enterprises and foreign companies backed by aggressive state support. To remain competitive in these critical growth markets, the U.S. must rethink how it levels the playing field for American businesses and workers.

Fortunately, the U.S. government already holds many of the tools needed to meet the challenge. What's required is an international investment and export strategy that is bigger, nimbler, and better coordinated. The U.S. International Development Finance Corporation (DFC) is one of the most strategic—but underutilized—assets in that toolbox. DFC can expand America's commercial footprint abroad while strengthening our geopolitical influence.

U.S. jobs, wealth creation, and national security are all at stake—but so is the shape of global development. Emerging economies deserve values-driven partners grounded in transparency, environmental protection, and respect for human rights.

When the United States is more competitive, the American private sector proves itself to be a dynamic engine of innovation. Breakthrough technologies—from manufacturing to infrastructure to advanced energy—will emerge and scale faster when our international investment apparatus helps unlock demand in the places that need them most.

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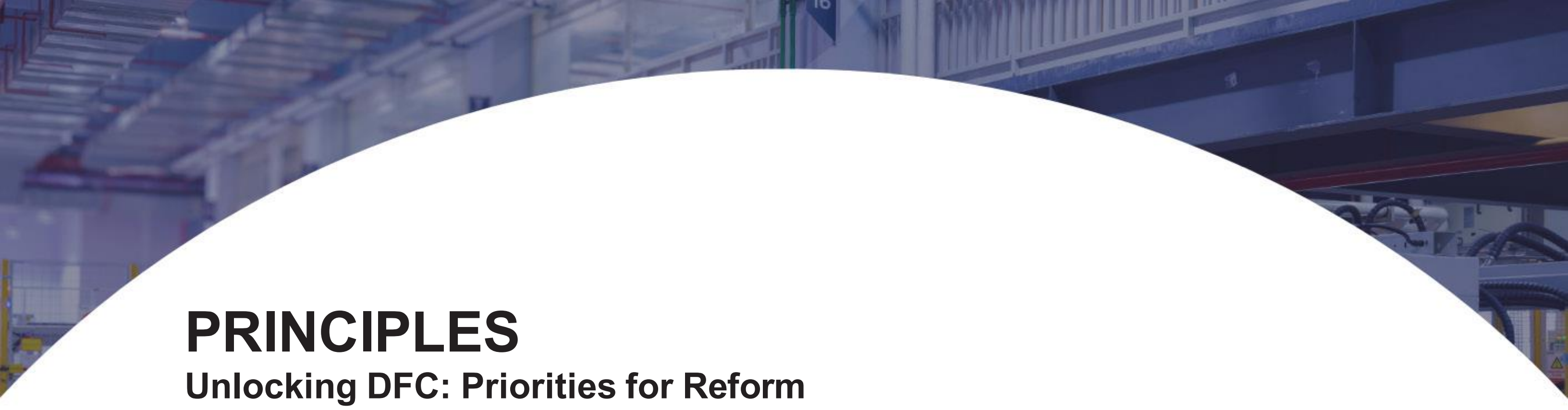

PRINCIPLES

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To enable the private sector overseas and to advance strategic American interests abroad, DFC and other agencies must be optimized to reflect the needs of the private sector and the scale of the challenges it faces in the global commercial competition. As Congress and the administration work to reauthorize and reform DFC, policymakers should consider taking steps to:

- **Increase DFC's maximum contingent liability** – DFC's current statutory maximum contingent liability limits the agency's total exposure to $60 billion, a cap that DFC is close to reaching. DFC's contingent liability cap should be significantly increased to at least $120 billion to provide flexibility for significant investments in priority regions and sectors, including critical minerals and nuclear energy.

- **Improve interagency coordination** – DFC is part of a much larger federal apparatus with a range of tools to support the private sector, including commercial diplomacy, project preparation, development finance, and export credit. The use of these tools should be tightly coordinated to achieve impact at scale. DFC's actions should be in lockstep with other agencies, including the Department of State, Department of Commerce, Department of Energy, the U.S. Trade and Development Agency, and the Export-Import Bank of the U.S.

- **Enhance private sector coordination** – Efforts to unleash the private sector require close collaboration with industry, whose needs vary in different regions and sectors and shift as market conditions change. DFC and interagency partners must create appropriate touchpoints for continuous input from the private sector through all stages of the investment and the complete project lifecycle to ensure federal programs are optimally meeting the needs of the private sector.

- **Build business development capabilities** – Development finance institutions created by foreign governments tend to have robust business development and commercial diplomacy arms that work to connect their domestic businesses with opportunities overseas. DFC and interagency partners should build superior capabilities to aggressively find and develop opportunities for U.S. firms.

- **Expand country eligibility** – DFC is generally limited to working in countries classified as low and lower-middle income by the World Bank, although it can transact in upper-middle income countries through a burdensome waiver process.[1]

[1] Additionally, Congress has authorized DFC to transact energy projects in Europe and Eurasia, notwithstanding country income levels.

These restrictions place significant barriers to DFC work in key markets in the Western Hemisphere and the Indo-Pacific. To enable U.S. firms worldwide and to address key strategic markets, DFC should have greater flexibility to operate in countries with varying income levels.

- **Develop novel tools** – Recognizing the fierce competition U.S. firms face in overseas markets, DFC's toolkit should include novel de-risking and financing tools that allow for maximum competitiveness. This should include a thorough examination of foreign and multilateral development finance institutions, both to adopt effective tools they employ, but also to identify gaps for novel tools that can give U.S. firms a competitive advantage.

- **Optimize equity investments** – Robust equity investments in strategic markets and sectors are needed to mobilize private capital and advance national security goals—not in the coming years or decades but immediately to secure footholds in key markets. However, DFC's ability to leverage appropriations to make impactful investments at scale in the near-term is artificially limited by the current budgetary treatment of equity investments. An "equity fix" that allows DFC to use this tool, commonly adopted by competitors, is essential.

- **Invest in staff** – DFC should have sufficient staffing levels to identify, formulate, and close impactful deals at the speed of business. Staff must have appropriate expertise, be appropriately compensated, and be located where they can have maximum impact, including in overseas posts.