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POLICY OUTLOOK

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

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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.

Read the full paper, "From Caution to Competition: Positioning U.S. Development Finance for Industrial Power" by Afreen Akhter at https://carnegieendowment.org/research/2025/12/from-caution-to-competition-positioning-us-development-finance-for-industrial-power?lang=en.

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- Modernize labor eligibility by eliminating reliance on outdated Generalized Services of Preferences country requirements, using project-level labor standards.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.

Afreen Akhter is a visiting scholar with the American Statecraft Program at Carnegie. Her work focuses on how U.S. economic statecraft tools can more effectively advance American industrial priorities in strategic sectors, strengthen supply chains, and create U.S. jobs.

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