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Issue brief: US Development Finance Corporation reauthorization

How to update the DFC to further advance US foreign policy priorities in Latin America and the Caribbean

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Key takeaways

- **Strategic alignment**: The US International Development Finance Corporation (DFC) is a crucial agency for advancing US foreign policy objectives, promoting job creation and development, fostering economic partnerships, and supporting strategic allies. It aligns with forward-looking initiatives from the Trump administration, such as *América Crece 2.0*, which emphasizes private-sector-led growth. But DFC's first reauthorization provides a unique window for updates to enhance effectiveness and alignment with US foreign policy priorities. Congress has until October to approve a reauthorization bill, but the decreasing availability of funds presents an urgency for approval.
- **Geopolitical competition:** The DFC can and should act as a strategic counter to the rising global competition for influence across the world, and particularly, in many of the developing nations that have continued to join China's Belt and Road Initiative. The DFC offers a transparent, market-based alternative to opaque, state-driven financing models that come with political strings attached.
- **Economic security:** By investing in critical infrastructure and critical rare earth minerals, cybersecurity, energy, and healthcare in Latin America and the Caribbean (LAC), the DFC can enhance US economic security by strengthening alliances with like-minded countries to serve as a counterweight to aggressive Chinese actions that seek to dominate key sectors for the US economy and US supply chains while reinforcing the value of US-led investment.

Created in 2018 under the BUILD Act, the DFC merged the Overseas Private Investment Corporation (OPIC) with USAID's Development Credit Authority. This restructuring introduced a more agile and powerful tool for advancing US development objectives while strategically countering rivals, especially China.

As Congress prepares to revisit the DFC's authorizing legislation, it should prioritize ensuring that the agency can effectively mobilize private capital for high-impact investments in **infrastructure, minerals, energy, technology, and healthcare**. These sectors are essential to strengthening the United States domestically—a key criterion set by the current administration for all agencies pursuing foreign policy initiatives. For example, investments in rare earth mineral exploration in the region not only secure preferential access for the US to the resource but can also generate US jobs in areas such as classification, storage, distribution, and processing.

Congress has until October to reauthorize the US International Development Finance Corporation, but funds for critical infrastructure projects are dwindling, adding urgency to the debate over the DFC's future. Unsplash/Danist Soe.

The DFC must also reposition itself with enhanced tools, such as capital financing and technical assistance, so it can lead strategic investments. These investments should prioritize relocating supply chains for critical minerals, semiconductors, pharmaceutical inputs, and digital connectivity throughout Latin America and the Caribbean. Strengthening strategic alliances with like-minded countries and the private sector is essential to expand the DFC's role in sectors vital to US economic and national security.

Optimizing the DFC's toolkit to meet geopolitical challenges in LAC

Multiple US strategic priorities intersect in Latin America and the Caribbean such as securing supply chains and diminishing the malign influence of China with our hemispheric neighbors. It is no surprise, therefore, that during his first visit to the region, US Secretary of State Marco Rubio emphasized the importance of deeper US economic engagement in the region to counter Chinese influence and to safeguard the United States' economic security by clearing the path for its neighbors' economic growth. Congress now has a pivotal opportunity to optimize the DFC to address emerging geopolitical and economic challenges in LAC through transparent, high-level development financing. These efforts align with the DFC's dual mandate of advancing development policy that aligns with key US foreign policy interests.

While the DFC has the tools to support these efforts through debt financing, equity investments, and political risk insurance, it needs additional mechanisms to bolster its efficiency in regions such as LAC.

Pick projects based on credit score, not country income designations

Latin America and the Caribbean is the DFC's second-largest target region after Africa and has become a more prominent recipient of the DFC financial commitments since 2020. Key barriers, however, remain to making the DFC's investments in LAC more strategic.

These include the BUILD Act's requirement to prioritize investment in low- and lower-middle-income countries, limiting eligibility for most LAC nations. For example, Panama is classified as a high-income country by World Bank standards and is therefore ineligible for DFC financing. But leaving out Panama can create a strategic gap in maritime logistics and regional trade corridors. To counter such barriers, relaxing investment eligibility requirements, possibly by adopting the World Bank's credit-scoring methodologies, should be considered.

The current use of World Bank income classifications (low-income countries, or LICs, and lower-middle income countries, or LMICs) to determine country eligibility limits the agency's ability to respond flexibly to development challenges and strategic priorities. This approach excludes vulnerable populations and sectors in upper-middle-income countries, overlooks pockets of poverty at the subnational level, and fails to account for factors beyond national income. Credit-scoring methodologies offer a more nuanced alternative by incorporating multiple dimensions such as creditworthiness, investment climate, governance, and sectoral vulnerabilities. This would allow the DFC to more effectively align its financing decisions with both development needs and financial risk.

Adopting a deal-making capacity based on credit-scoring framework would let the DFC target investments in critical sectors and regions that income-based criteria currently exclude, while maintaining alignment with its mission and US foreign policy goals. It would also bring the DFC's practices in line with international development finance institutions that have moved toward multidimensional eligibility models. Although credit scoring introduces complexity and administrative requirements, it offers greater flexibility, risk-adjusted decision-making, and potential for higher development impact. Therefore, incorporating credit scoring into the DFC's reauthorization framework could enhance its capacity to deliver targeted, effective, and strategic development finance. Additionally, the DFC should incorporate common tools of traditional banking, such as net present value analysis, into financial evaluation to better assess project viability. This means classifying projects as lending opportunities, not solely as grants.

Equity investments represent only a small share of the DFC's investments in LAC (4 percent of total commitments in 2024). Reauthorization should explicitly expand the DFC's equity authority, which allows equity deals to be understood as investments rather than grants with immediate losses. This would allow early-stage equity investments in vital sectors like lithium mining (Argentina), copper refining (Chile), and nickel production (Brazil) to anchor private capital and secure critical mineral supply chains.

> "The DFC should leverage its authority to lend in local currency and take on the currency risk, particularly in long-term strategic infrastructure projects"

Invest in more Latin American countries

To improve project sourcing, due diligence, and monitoring, Congress should mandate that the DFC expand its local physical representation in the hemisphere besides Brazil and the Dominican Republic. This can be done in partnership with regional entities like IDB Invest, or, even though the United States is not a member, with CAF (Development Bank of Latin America and the Caribbean). Both entities have a robust on-the-ground presence and expertise across LAC and can partner in mobilizing new resources needed for equity on critical supply chains.

The DFC should also consider expanding its tools to reduce political risk, including insurance options, rigorous due diligence, and the use of bonds or guarantees. These measures are essential for enabling US-aligned investors to pursue strategic infrastructure and energy projects—particularly in sectors targeted by China's Belt and Road Initiative, such as ports, transportation, and terrestrial infrastructure—despite political volatility.

Lend in local currency

Moreover, the DFC loans in US dollars expose borrowers to currency risk. If the local currency depreciates against the dollar over the life of the loan, the real cost of repaying the debt increases substantially, potentially making projects financially unsustainable. As such, the DFC should leverage its authority to lend in local currency and take on the currency risk, particularly in long-term strategic infrastructure projects, where it is in the DFC's foreign policy and development goals to keep the costs down and ensure repayment.

Additionally, to be more effective in LAC, Congress should consider granting the DFC Executive Director or Board of Directors the authority to increase the corporation's risk tolerance to attract greater private sector participation through mechanisms like concessional financing, blended finance, technical assistance, first-loss grants, and risk-sharing. These mechanisms have proven effective in past DFC initiatives, such as debt-for-nature swaps in Ecuador and Belize, and could also help drive U.S. investment—particularly in relocating strategic supply chains.

Reauthorize the DFC soon to reassure borrowers and stay in the game

The impending expiration of the DFC's authorization creates uncertainty and undermines its ability to commit to long-term strategic projects. Congress must strike a balance between promoting development, ensuring financial sustainability, managing risk, and applying clear impact metrics like capital ratings for instance.

The use of these metrics is intended to integrate factors such as sovereign credit ratings, ease of doing business scores, political risk indices, sector-specific investment risk, and measures of development vulnerability. This multidimensional scoring system would provide a more comprehensive assessment of both financial and development risks, allowing the DFC to tailor its support to projects and regions with high development needs but varying levels of creditworthiness

Reauthorization is an opportunity to improve not only how the DFC finances projects, but also what kind of projects the DFC invests in, with an eye to prioritize investments in critical areas such as digital security, semiconductors, infrastructure, rare minerals, and sustainable agriculture – precisely many of the sectors in which China is seeking complete dominance but where LAC countries are yearning for US investment to counter-balance the aggressive Chinese approach.

Congress should also pay attention to ways to differentiate US financing models from China's opaque practices. This can be done by investing in high-quality infrastructure developments to benefit both sides of the transaction with transparent and sustainable growth. To match the speed to which China can disburse funds, Congress should consider changing the notification process of new projects beyond the $10 million threshold. Congress can consider raising the threshold to $50 million, or reducing the notification period, so that decisions can be made at a faster pace and not be delayed in the process.

As China intensifies its control over critical minerals, particularly those vital for chip and semiconductor production, the United States must respond. A more flexible, better-funded DFC would significantly enhance US economic and national security by securing vital supply chains across Latin America.

A good practice that would make the DFC more flexible and strategic would be to expand its investment ceiling from $50 billion to the $120 to $150 billion mark, and also include considering the available fund for providing equity matching for infrastructure as a revolving fund, which will give the institution the capacity to provide equity to new critical projects, and also to co-mobilize resources with private and multilateral banks, and others.

Reauthorizing the DFC is vital to ensuring the United States is not outcompeted by China in its hemisphere. It is essential for supporting US jobs, creating markets for US exports, advancing energy independence, and linking foreign policy outcomes directly to economic benefits for American workers. Congress must act decisively to secure America's economic interests and leadership in the Western Hemisphere.

Bottom lines

- The reauthorization of the DFC is a critical inflection point for US foreign policy to more effectively counter China's expanding influence and strengthen US engagement in Latin America and the Caribbean.
- Congress must ensure the DFC secures long-term authorization and sufficient funding, plus streamline its capital deployment mechanisms, and prioritize regional economic security as part of broader strategic realignment, including supporting critical supply chain modernization across the Western Hemisphere.
- With a deadline of October 2025 for reauthorization, proactive congressional action is essential. By reinforcing the DFC's capacity and scope, the United States can offer the region a credible, sustainable alternative to China's "soft debt" diplomacy and secure a stronger, more resilient Western Hemisphere for the future.

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