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House Committee on Foreign Affairs

"The Administration's FY23 Budget Request for the Peace Corps, U.S. International Development Finance Corporation, and Millennium Challenge Corporation"

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Mr. Chairman, Ranking Member McCaul, and Members of the Committee, thank you very much for this opportunity to discuss the U.S. International Development Finance Corporation's Fiscal Year 2023 budget request. Funding the request will enhance DFC's ability to accomplish its core mission of driving private capital toward worthy projects that help address major global challenges and foster inclusive economic growth. I also want to thank this committee and Congress for its continued support of DFC. You have provided DFC with resources and authorities that have allowed the Corporation to grow and continue to support developmental and strategic investments around the world.

The list of challenges facing the developing world is long — Russian aggression has exacerbated food insecurity, the COVID-19 pandemic has disrupted supply chains and challenged fragile health systems, and climate change has adversely impacted critical ecosystems necessary for food, shelter, and income. The World Bank's Global Economic Prospects report released just last week predicted the global economy could be entering "a protracted period of feeble growth and elevated inflation." To address these challenges, developing nations want and need an alternative to the low standard offerings from our strategic competitors. DFC's mission — expanding investment and access to private capital — is more important now than ever before.

DFC prioritizes support to populations that are most vulnerable to these global challenges: those living in low-income countries, women, refugees, and disadvantaged communities. In pursuit of economic development, DFC mobilizes private capital in support of businesses that expand access to essentials like food, energy, healthcare, technology, housing, modern infrastructure, and financial services. We are also particularly focused on sourcing strategic projects that help close the estimated $40 trillion infrastructure financing gap in developing countries and thereby provide an alternative to financial support from authoritarian governments.

DFC is still a relatively new agency. As this committee knows well, we were created via the BUILD Act of 2018 and opened our doors in late 2019, bringing together the Overseas Private Investment Corporation (OPIC) and USAID's Development Credit Authority (DCA). Congress modernized U.S. development finance by more than doubling our maximum portfolio size and authorizing us to make equity investments and provide technical assistance. With other new authorities, we now are able to work more directly with local businesses. DFC's tools are making a real impact, but continued support from Congress is important as we continue the transition from our predecessor agencies.

DFC's Budget Request

In FY2023 DFC is requesting a budget of $1 billion, consisting of $780 million in program funds and $220 million for administrative expenses. With a $220 million administrative budget, we will be able to add the personnel necessary to originate more transactions, responsibly accelerate the project screening process, and provide more robust monitoring and evaluation of DFC's growing portfolio. We also will use the administrative budget to implement more innovative and effective programs and partnerships. These resources will aid our efforts to identify new private sector partners by expanding client outreach and providing effective customer service to project sponsors. New clients and a larger pipeline will position DFC to source additional strategically significant deals around the world.

With $780 million in program funds that can be flexibly allocated among our financial products, we will be able to achieve the scale necessary to meet our capital mobilization goals. This includes deployment of additional equity investments. The proposed increase will allow DFC to do more to complement America's foreign assistance resources and help spur economic growth. Economic gain leads to further investment, economic expansion, and self-sufficiency. By enabling private sector investment and economic growth, DFC helps countries cement market-oriented reforms and prevent backsliding into indebtedness, dependence and stagnation. With more resources, DFC can better finance high-quality infrastructure throughout the developing world, an alternative offering frequently requested by our partners.

DFC's Impact

Just last year, DFC committed $6.7 billion to new transactions across a range of sectors. Following the onset of the COVID-19 pandemic, DFC pivoted to focus on healthcare and has invested nearly $2 billion over 25 projects in the sector. We have worked to increase access to vaccines, including $1 billion to Gavi the Vaccine Alliance, to procure 160 million doses of vaccine, as well as a $50 million loan to Biological E in India to produce up to 1 billion doses of COVID-19 or other vaccines. DFC committed $454 million across 21 transactions that advance climate mitigation, resilience, and adaptation. This is on top of DFC's everyday work of investing with private sector partners to help extend financing to micro, small, and medium enterprises (MSMEs) in order to bolster economic growth and stability, and also expand access to financial services for underserved populations. Across sectors, four out of ten new projects last year met the criteria for DFC's 2X Women's Initiative. These criteria capture a project's contribution to women's leadership, employment, entrepreneurship, and role as major consumers in the local economy.

An example of a highly developmental and strategic project is DFC's support to modernize and operate Rio de Janeiro's public lighting system and implement smart city infrastructure. The project, which targets neighborhoods below the city's median income, will lead to significant energy savings through technology upgrades. The smart city infrastructure includes many thousands of remote sewage monitors, smart traffic lights, and public Wi-Fi access points. The project sponsor was awarded the concession for the project after a competitive tender, beating out two other bids, one of which was submitted by a Chinese consortium backed by Huawei Technologies.

Another example is a transaction DFC announced at the Summit of the Americas last week. We will be lending $30 million to a Miami-based investment company that will expand credit access for small farmers and food processing facilities across Latin America. The transaction supports regional trade and food supply chains, and keeps people employed in their local communities.

And just yesterday, DFC's Board approved $1.4 billion in new investments, including a $100 million loan guaranty facility for small businesses in Egypt and a $200 million direct loan to a bank in Vietnam to expand local business lending. We are particularly excited to have established this new client relationship in Vietnam, a country of strategic focus.

We are also looking for investments to help mitigate the food security impacts of Russia's war on Ukraine and throughout the developing world. For example, we are evaluating an expansion of an existing bank guaranty to help extend credit to agricultural businesses and cooperatives in Ukraine. We expect there to be nearly one million beneficiaries of this program.

In addition to the many transactions we already have announced, we are pressing forward with a pipeline of sustainably financed significant infrastructure transactions, including those that provide open and safe digital networks, more diversified and secure sources of energy or other important resources, commercial port development, and large-scale road projects. While no projects are certain until financial close, we are excited about the current flow of these high-impact transactions.

In addition to fully implementing the BUILD Act, and in line with the authorities provided to us under the European Energy Security and Diversification Act (EESDA), we are seeking out transactions that help secure Europe's energy supply and long-term energy independence. EESDA recognizes that energy dependence jeopardizes European peace and security. My first international trip as CEO was to Poland. Energy diversification was at the forefront of my agenda. We are in active discussions with many of our European partners to accelerate their efforts to secure non-Russian sources of energy. Recently, DFC committed $7.5 million to a project with the Kosovo Credit Guarantee Fund that can ultimately lead to $30 million in lending to renewable energy independent power producers. Next week, I will lead the U.S. delegation to the Three Seas Summit in Riga, Latvia, to reinforce DFC's readiness to provide critical support for the region.

In the Middle East, DFC established the Joint Investment for Peace Initiative (JIPI) in 2021 and has been developing a pipeline of bankable transactions across a variety of sectors, including agriculture, food, tourism, light manufacturing, and finance. JIPI was created by the Middle East Partnership for Peace Act. Its first transaction was a $3.5 million technical assistance grant that has facilitated $160 million in loans and created or sustained 7,700 private sector jobs over the past five years. We are focusing on business development in the region and are seeking to expand the scale of our work.

And in the Indo-Pacific, we continue to deepen our engagement. Last month, during the U.S.-ASEAN Special Summit, I met with the Prime Minister of Vietnam to formalize DFC's $37 million loan commitment to support the construction of Fulbright University Vietnam (FUV)'s new campus in Ho Chi Minh City. FUV is Vietnam's first independent, non-profit, liberal arts university. This project will support the first phase of construction of facilities for up to 1,500 students. DFC's investment in FUV will help close the gap between the demand for skilled employees in Vietnam's workforce and educational opportunities in the country.

Impact Evaluation and Resource Management

Each of the projects that we support is evaluated for development impact. When DFC was created, the BUILD Act directed us to develop a modernized development impact measurement tool. In 2020, DFC launched the Impact Quotient (IQ) framework to monitor and measure the development impact of every project it supports across multiple categories including growth to the local economy, inclusion of underserved populations, and the innovation that is supported through the introduction of new products, services, or the financial structure of the deal. We have requested additional resources to continue to refine and improve these innovative impact measurement tools and to continue informing our future investments.

Fostering an effective, efficient, and inclusive organization is critical to achieving our development and foreign policy objectives, and. empowering staff is a key to creating a productive and positive work environment. We are committed to attracting and retaining the skilled and diverse personnel needed to achieve our development and foreign policy objectives. As we hire additional staff, we continue to build management and oversight structures for monitoring complex transactions.

Partnership

As the BUILD Act intended, we are better positioned to work with our allies and partners. For example, we can make equity investments alongside the development finance institutions of close allies like the UK's British International Investment, Germany's DEG and France's Proparco. The FY2023 program request will allow for continued close collaboration with likeminded entities to help deploy high-value standards, diversify sources of critical goods and supply chains, and maximize development impact through our collective investments.

We also collaborate closely with the United States Agency for International Development (USAID), the Department of State, and other U.S. government agencies to amplify our impact. Our Mission Transaction Unit helps build DFC's pipeline by coordinating directly with USAID missions and their designated DFC liaisons worldwide to originate transactions in the field. DFC also chairs the Development Finance Coordination Group (DFCG), an interagency group that meets monthly to identify ways to strengthen interagency collaboration.

This collaboration has resulted in a new initiative with the U.S. African Development Foundation (USADF), which will provide a combination of loans and grants to early-stage companies. The initiative will help companies develop business models, build up management skills, and expand market reach. It also will support African entrepreneurs in low-income and lower-middle income countries whose projects advance or deploy innovative technology.

Conclusion
The needs of developing countries are significant. Two billion people around the world lack reliable sources of energy, and less than half of people in developing countries are connected to the internet. More than 1 billion women still do not use or have access to the financial system. These challenges will require significant amounts of capital to resolve. Aid alone will not be sufficient, and the private sector will need to play an important role in creating opportunities for sustainable growth and prosperity.

As DFC carries out our work to leverage private sector investment for development, our financing tools will reinforce good governance, maintain high environmental and labor standards, avoid unsustainable debt levels, and promote economic inclusion. These are American values -- values and practices that set DFC apart as a preferred partner for developing countries. With additional resources provided by Congress, DFC can and will make a greater impact in the developing world by pursuing our core mission of advancing economic prosperity and U.S. strategic interests.

Thank you. I look forward to your questions.