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Reauthorization of the US International Development Finance Corporation

Chairwoman Kim, Ranking Member Bera, and distinguished members of the committee, it is an honor to have the opportunity to testify on the reauthorization of the U.S. International Development Finance Corporation (DFC) and to be joined by my good friend former Congressman Ted Yoho with whom I worked closely on the BUILD Act in 2018.

Having served for three and a half years as President and CEO of the Overseas Private Investment Corporation (OPIC), the predecessor agency to the DFC, during the George W. Bush Administration, and having observed firsthand the strengths and weaknesses of OPIC, it was particularly gratifying to be involved in updating and modernizing our development finance capability. It was also rewarding to have garnered the breadth and depth of bipartisan support that the BUILD Act enjoyed in both the House and Senate.

Since its passage, I have had the privilege of serving on the Development Advisory Council to the DFC which was established under the statute, and where I served as chair for the first four years of its existence. That council is charged with advising senior management and the board of the DFC on how well the agency is performing its statutory responsibilities. The council met regularly with the senior management and provided valuable feedback and guidance on how to strengthen the performance of the DFC and compete more effectively around the globe, and particularly against China.

After monitoring the transition from OPIC to the DFC and then observing the last several years of performance, I can say without qualification that the DFC has not only been a huge improvement over OPIC, but it also has been a huge success. The agency went from $3-$4 billion in commitments per year to over $12 billion and from a total portfolio of $29 billion to over $50 billion today with over 70 percent of the projects in low and lower-middle-income countries.

And yet, as impressive as that is, it is still a fraction of the Belt and Road financings done by China over the past five years. The question is how to take the DFC to the next level of performance. I think this committee did an excellent job last year of addressing many of the areas that need improvement in H.R. 8926 and I hope you will continue to build on that base. But before reviewing those areas, I want to suggest what underlying objectives I believe should drive this reauthorization process.

In my judgement, the DFC needs to be more proactive than reactive, more physically present in strategically important markets, and more willing to take on risk that will clearly lead to greater private sector investment. In order to achieve those objectives, there are several steps that can be taken in a reauthorization bill.

First, the DFC needs much more flexibility in terms of the income levels of countries in which the agency is eligible to do business. While I believe that the principal focus of the agency should continue to be on doing deals in low-income and lower-middle-income countries where credit and capital are so scarce, I agree that changing the classification from World Bank income levels to World Bank lending levels is a step in the right direction. I also believe that giving the DFC CEO the authority to certify projects in Upper-Middle-Income Countries is a good change. Another alternative is to give the DFC Board the authority to certify those projects.

A second essential change, and one that is a leftover piece of business from the BUILD Act, is to fix the way equity investments are scored to a net present value approach rather than treating those investments as grants. For decades, OPIC participated in private equity funds as senior secured debt which meant that upon exiting a fund, OPIC got its money back plus interest before any of the other investors earned a return. Even participating as debt in these funds, OPIC earned a 6% return on a portfolio basis.

The agency has an abundance of experience in evaluating the risk of private equity funds so it is difficult to understand why budget officials don't accept that experience as sufficient. I urge the authorizers, appropriators, and budget officials to sit down together and agree upon an approach that will enable the DFC to make the equity investments on a net present value basis rather than as a grant. Being able to deploy equity in a host of transactions is critically important to the DFC's ability to assume more risk and to mobilize much more private capital. Without some reasonable resolution of this issue, the DFC will never reach its full potential and comply with Congressional intent.

A third area of improvement that can help expand the capacity of the DFC to compete for projects around the world is to increase the risk tolerance of the agency so that projects attract much more private capital. The more the DFC can de-risk projects by assuming more risk on their balance sheets or finding others to share the risk, the more private sector investors and lenders will be comfortable participating. There are a variety of ways to do that including concessional finance, blended finance, small grants and technical assistance, first loss grants, and sharing risk with other bilateral or multilateral financial institutions. The committee recognized the importance of these tools through its support for allowing the DFC to accept a creditor status that is subordinate to that of other creditors in H.R. 8926. I hope the committee will strongly encourage the agency to be more risk tolerant and creative in the use of the many tools to de-risk projects and attract more private capital and reward DFC employees that exhibit such creativity in structuring deals.

A fourth area to focus on relates to how to extend the coverage and reach of the DFC to be more of a presence in strategically important markets around the world. While the DFC could benefit enormously from opening more offices in Latin America, Africa, Asia and the Far East, the quickest way to expand their presence, improve their market intelligence, and increase their pipeline of projects is to create collaboratives or partnerships with like-minded bilateral and multilateral financial institutions. A perfect example is to team up with the private sector arm of the Inter-American Development Bank called IDB Invest. IDB Invest has offices in virtually every country in Latin America and the Caribbean and has much greater access to the kind of deals that the DFC could help finance, particularly in the critical minerals as well as hard and soft infrastructure areas. It is also important to recognize the role that USAID missions have played in helping drive economic growth, trade, and investment initiatives through programs like Power Africa. Prosper Africa, and the African Growth and Opportunity Act (AGOA).

Finally, despite all of the aforementioned improvements that can be made to the DFC, they will all go for naught if businesses that would like to work with the DFC decline to do so because it takes too long to process deals. Unfortunately, this is happening way too often. Consequently, I would urge the committee to work with the DFC on how to accelerate the review and approval process, and it should include changes to the current Congressional notification process.

Chairwoman Kim, Ranking Member Bera, and distinguished members of the committee, thank you for this opportunity. I have submitted a longer statement for the record and look forward to your questions.

Additional Recommendations for the Committee

The maximum contingent liability (MCL) for the agency is nearing $60 billion. It needs to be raised so that the agency can continue to operate. In fiscal year 2024, there were over $12 billion of new commitments. If the agency averages $10 billion per year of new commitments for another seven years, the outstanding commitments will be $70 billion plus the current total of $60 billion for a total of $130 billion. Therefore, I recommend that the MCL be raised to $150 billion.

In terms of internal organization, the BUILD Act called for the appointment of a Chief Development Officer (CDO) that would report to the Board. There is also an Office of Development Policy (ODP) that measures and tracks the development impact of every project. The responsibilities of the CDO and ODP overlap and have created confusion. Therefore, I recommend that the CDO be folded into the ODP and that the ODP be headed by a Vice President who is on the same level as the Vice President for Foreign Policy and National Security that was recommended in H.R. 8926.

Political risk insurance (PRI) has become a very important tool in mobilizing private capital. However, some budget officials want to score political risk insurance for debt instruments as loans subject to the Federal Credit Reform Act (FCRA). This is at odds with the DFC's proprietary pricing model for PRI and will inhibit the use of PRI to mobilize much more private capital. Therefore, the committee should state that PRI on debt instruments should not be characterized as loans and subject to FCRA.

For years, OPIC charged borrowers from the agency for "project specific transaction costs" outside of the agency's administrative expenses. However, under the BUILD Act, the DFC's use of these fees for transaction costs are subject to appropriations. I recommend that the BUILD Act be amended to allow the DFC to use such fees without counting them against the agency's administrative expenses restoring a practice that OPIC followed for years.

In section 204 of HR 8926 last year, the committee supported a change that would allow the DFC to compensate a percentage of employees outside the GS classification and pay system in recognition of the fact that the financial expertise required to support DFC investments in some areas would be much more highly compensated in the private sector than was possible under GS compensation. Therefore, the DFC was allowed to compensate as much as 20 percent of the workforce at higher salaries than would otherwise be the case in order to attract some of the most qualified talent to the agency.

In 2019, the Congress passed the European Energy Security Diversification Act which allowed the DFC to support projects in High Income Countries despite a development mandate that sought to focus the majority of DFC's resources on low and lower-middle-income countries. I recommend the repeal of the European Energy Security and Diversification Act and the adoption of a High-Income Country waiver with restrictions. Those restrictions should require a finding that the host country has significant pockets of poverty, that it represents a high foreign policy priority of the United States Government, that the project is structured in such a way as to maximize the private capital mobilized and that such high income country projects do not constitute more than 10 percent of the DFC's commitments in a single fiscal year without consultation with the jurisdictional committees of the House and Senate.

And finally with respect to the Chief Risk Officer (CRO), I recommend that rather than the CRO reporting to the Board, they report to the CEO.