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Written Testimony

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Reauthorization of the US Development Finance Corporation

Chairman Kim, Ranking Member Bera, and the esteemed members of this committee:

It's my honor to address this committee on the importance for the first 7-year reauthorization of the US International Development Finance Corporation (DFC). It is imperative that the DFC has a strong bipartisan and timely reauthorization for this important development tool so that it can fulfill the Administration's goals of making America safer, stronger, and more prosperous. The DFC has the ability to develop basic infrastructure projects in developing countries to increase the recipient country's economic productivity by creating jobs, thus helping countries transition from "aid to trade". This benefits the US and its taxpayers by providing needed resources like critical minerals, and increases exports of US technologies, financial services, and biomedical research, just to name a few sectors.

The DFC is also America's pre-eminent development tool to counter Chinese influence in the developing world via their Belt and Road Initiative (BRI). To date, China has invested an estimated $1 trillion in 147 countries since 2013 compared to the United States' $76 billion in 114 countries since 2019. The Chinese influence is gaining in countries around the globe, while ours is waning. China strategically invests in ports, mines, rails, roads and bridges, energy, telecommunications, and procures for themselves the much sought after rare earths minerals and copper, gold, aluminum, and steel used in our military jets, EV vehicles, and electronics.

These investments serve to grow China's economy by opening up new trading markets, strengthening their military from the increased revenues, and cornering commodities on the world market. They then leverage their clout against other countries to pressure them to their demands, including the US. This allows China to expand their communist ideology and influence in the developing world.

To date the DFC has had some notable project successes, but they pale in comparison to the strategic investments the CCP has done in infrastructure development. The Chinese require the recipient country to use Chinese state sponsored businesses, workers, and engineers. They build Chinese hotels and restaurants and have very little direct economic impact on the local labor force. They build a Chinese economy within those BRI indebted countries. It would be easy to go on about China and how they exploit the recipient nations whether in terms of the loans, lack of environmental standards, or human rights abuses but I would rather take this time to focus on how we strengthen our hand.

In order to be more competitive in a world of increasing ideological division, the US should focus on developing infrastructure projects in strategic regions of the world that will lead to increased trade with us, building economies and jobs while creating strong alliances.

I recommend four items to be considered in the DFC reauthorization.

First, it would give the DFC more flexibility to invest in projects in upper income countries. This gives the DFC the option to do projects more strategically in regions that will strengthen our national security and increase trade. As an illustration, the country of Panama, where the DFC can't operate due to these restrictions, yet China is heavily invested on both sides of the Panama Canal. The Panama Canal is a vital transit trade route. With the Chinese controlling both sides of the canal, it becomes a security risk for the US. If the DFC could work in middle to high income countries the US could offer alternatives in financing to those governments and open up new markets for trade.

Second, the maximum contingent liability (MCL) should be raised from $60 billion to $150 billion to enable the DFC to take on larger projects that are more impactful. By the end of 2024, the DFC had lent out over 80% of its MCL, meaning once they hit their cap, which could be in this Fiscal Year, they can't approve any new deals until Congress reauthorizes DFC with a higher MCL. I would also like to mention that the DFC does not operate by dispensing 100% of its funds in grants. They give a small amount of allocated funds in technical assistance and over 90% in loans which are repaid. Since its launch in December 2019, the DFC has committed to more than $40+ billion across more than 700 projects, yet operates with less than a 1% failure rate.

Third, the scoring method OMB (Office of Management and Budget) uses for equity investments needs to be reinterpreted as intended by Congress. Presently, OMB scores any money invested using equity by the DFC as a grant that will never be repaid. They use a dollar-for-dollar method that views every dollar invested as equity as a dollar lost. They do not look at the return on investment it generates. It is more accurate to view monies invested on a net present value that shows a positive return on investment. Scoring equity on a net present value follows Congress' original intent. If not, OMB's interpretation of dollar-for-dollar scoring restricts the DFC's effectiveness and hampers its potential. It keeps the DFC from making critical early-stage investments in countries that need it the most. Early-stage investments are what attracts private capital. Without the DFC's early action, private finance is limited or not available.

Fourth, instead of operating on a 7-year reauthorization and annual appropriation schedule, which can create an air of uncertainty on receiving future funding in a timely manner, it would make the DFC more efficient to have monies collected from loan repayments and equity returns go through the US Treasury into a DFC revolving account with a cap. Basically, it feeds itself instead of waiting on Congress to replenish its account. This creates continuity and can be accomplished with amended language to the original bill.

A few other considerations for Congress as you undertake the DFC's reauthorization are as follows. In order for the DFC to expand its impact and reach, it needs to have more boots on the ground overseas who can proactively identify new investment opportunities. DFC has made real progress in building out its overseas presence, but there is a need to grow this capacity further in order for the DFC to keep growing and to move with greater speed in making investments. Second, the DFC needs to be better integrated with other foreign assistance tools of the U.S.

Government. Grant based economic development programs, such as those led by USAID and MCC, play a critical role in identifying and de-risking investments for the DFC, and these grant-based economic tools must be maintained in order for the DFC to achieve its potential. Lastly, the DFC can play a unique leadership role in driving the nearshoring and friendshoring of highly strategic sectors and supply chains such as rare earth metals and pharmaceuticals/APIs.

Thank you Madam Chairman. I yield back and look forward to your questions.