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"Examining U.S. Foreign Assistance to Address the Root Causes of Instability and Conflict in Africa"
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Chairwoman Bass, Ranking Member Smith, and distinguished Members of the Committee: thank you for the opportunity to speak with you today about how the U.S. International Development Finance Corporation (DFC) partners with the private sector in Africa. Together we work to bring investment to where economic opportunity is lacking and where basic needs, like access to electricity, quality healthcare, reliable nutrition, and clean water remain unmet.

DFC is working in Africa on numerous fronts, including to develop the capacity of the healthcare sector, improve agricultural markets, make capital more accessible to micro, small and medium enterprises (MSMEs), and build critical infrastructure, including for energy generation, transmission and storage. These investments can promote stabilization and sustainable development, helping counteract the effects that COVID-19, the conflict in Ukraine, and climactic shocks have had on the population resulting in heightened food insecurity and fragility. 278 million people in Africa suffer from chronic hunger -- about 20 percent of the continent's population – a situation that is becoming more dire[1]. Fragility has worsened throughout the world in 2022, as measured by the Organization for Economic Cooperation and Development, and fragile contexts comprise a rising share of the world's extreme poor.

DFC has expanded its work since its inception and is doing more in Africa. In Fiscal Year 2022, DFC committed $1.4 billion to projects in sub-Saharan Africa. DFC's portfolio in sub-Saharan Africa now stands at more than $9.1 billion across 282 transactions in 34 countries. We have prioritized support for low and lower middle-income countries (LICs and LMICs) in Africa, with fully 90% of DFC's current Africa portfolio in those categories.

Attracting private sector investment is one of many prerequisites for fragile countries seeking to get on and stay on the path to prosperity, to make developmental strides, to prevent violent conflict, and to curb extremism. A significant challenge is that the private sector is not willing to put capital at risk in contexts where the rule of law is weak, where corruption runs rampant, where conflict appears likely, and return on investment seems beyond reach. It is difficult for poor and fragile countries to act on their own to instill confidence in the private sector, and no single donor, agency, or company can resolve this independently. Instead, all must act in concert and at sufficient scale, utilizing the tools best suited for the moment and the context. DFC can facilitate the growth of the private sector in certain fragile contexts, serving as one part of a larger strategy to achieve twin objectives of promoting international development and U.S. national security.

To be clear, this work is challenging, and it becomes more challenging as global macroeconomic conditions worsen, countries experience more instability, and private investors become more risk averse. DFC can and will do more to prioritize support for fragile and low-income countries, but we will

[1] Armstrong, Martin. "A fifth of people in Africa are suffering from chronic hunger." World Economic Forum, August 4, 2022. < https://www.weforum.org/agenda/2022/08/hunger-in-africa-serious-millions/>

necessarily rely on the efforts of partner agencies of the U.S. government, as well as other partners, including other public organizations and philanthropy, to create an enabling environment for business in acutely fragile contexts where DFC's tools alone may not yet be appropriate or effective. Collaboration is especially important in these countries, because while DFC can facilitate private investment, there are many places where external private companies are not yet willing to work, even with DFC's support. To encourage the private sector to take worthwhile risk, DFC will necessarily take on additional risk itself. Finally, for DFC to work most effectively, it will need to manage three main constraints in fragile contexts: lack of political will, lack of capacity, and foreign exchange risk.

One common constraint that we have seen in countries is the lack of sufficient and predictable political will. By this I mean that local actors sometimes have inconsistent views regarding what is needed to promote investments, sometimes pushing against each other and pursuing conflicting objectives. That may manifest itself in the form of cabinet members in a country having their objectives misaligned to promote the opportunity for investment. Or it can come in the form of a country deciding to renegotiate existing agreements with investors, causing the investors to pull away from the country. When political will is absent, governments are prone to changing rules and regulations arbitrarily, allowing corruption to fester, and taking on unsustainable debt to pursue projects of questionable economic value. All these outcomes hamper the private sector. Companies cannot be assured that their long-term investments can deliver a competitive rate of return, or even that their return will be positive. When allocating finite capital, investors will instead seek out projects that appropriately compensate them for the risk that they take on. The Department of State, USAID, Department of Commerce, and other U.S. Government agencies are instrumental to building local consensus. DFC, for its part, helps bring interests into alignment by closing the gap between what financial products are available on the private market, and the financial products that a given project can accept while remaining economically viable. If political will is absent, though, this gap can be insurmountable.

A second constraint working against robust private sector-led growth in Africa is a lack of capacity. This constraint is especially apparent in countries where governments may have inadequate resources to pay for the technical work needed to plan and implement infrastructure projects. Or it can manifest itself in the form of governments simply not having experience in certain sectors, which often necessitates bringing in costly outside experts to build capacity. For private investment to flow, the state must have capacity and commitment to enforce laws, uphold contracts, and otherwise provide assurances that the rule of law will be respected. Capacity is especially important in sectors such as power and mining, where projects are complex and the investments are long-term. For example, consider a government negotiating a power purchase agreement (PPA) with an independent power producer; these complex arrangements form the backbone of a power project's cashflows and provide assurance to financial backers that they will get paid. The government must have a substantial amount of technical capacity to enter into these agreements and orchestrate the transparent tendering process the private sector needs to be confident that the agreed-upon price can be sustained, or that the agreement will be upheld. When government capacity is lacking, the sustainability of a given project is not assured and timelines can be especially long.

Unfortunately, certain state-directed foreign actors take advantage of weak government capacity in emerging markets, which can lead to indebtedness, or subpar projects, and DFC and our interagency partners play a critical role in addressing this challenge. State, USAID, and Commerce work directly with governments to improve their capacity to regulate and manage their economies. The Department of

Commerce's Commercial Law Development Program (CLDP), for example, provides government-to-government technical assistance that helps improve the legal frameworks in fragile countries and helps bring them into alignment with the expectations of international investors. Local capacity building is a major focus of USAID programming such as Power Africa. DFC, for its part, works directly with the private sector, and may provide technical assistance or feasibility studies that help companies compete for government contracts. Technical assistance can be especially beneficial for new, upstart, and local companies. DFC political risk insurance can also facilitate implementation of projects blocked by lack of institutional capacity.

Finally, foreign exchange risk is a major challenge to investing in many fragile markets. Consider a major infrastructure project, where construction is paid for in local currency and project revenues accrue in local currency. International investors, meanwhile, largely deal in dollars and provide financing in dollars. If the local currency depreciates between when a loan is dispersed and when it is repaid, repaying the loan becomes more burdensome, threatening the financial viability of the project. The private sector can protect against this risk through forward contracts and currency swaps, but these can be expensive and add to project costs. DFC is exploring expanding the use of local currency lending.

DFC works at every step to overcome these challenges. One way that DFC can address these challenges in fragile contexts is to utilize its funding to take on greater amounts of risk. Following internal and external discussions about our organizational risk appetite, DFC has committed itself to take on more risk, in a disciplined and calculated way, when it can serve strategic objectives or deliver increased development results. We are continually reassessing our posture internally, and we will continue to engage with congressional stakeholders on this subject as well. We believe that taking deliberate risk in priority areas can create greater opportunities and further DFC's mission. And ultimately, the upside outcomes and potential for bigger development and strategic impact is worth the increased risk.

By working in concert to overcome the gaps and challenges to investing in difficult contexts, DFC stands to be a catalyzing force for development that sets countries up for self-sufficiency and prosperity in the longer term. At its best, DFC can support a virtuous cycle of economic growth, capacity building, and stabilization, and we are proud of the impact that we have already been able to have on the African continent. Several transactions stand out as examples of DFC's potential to improve economic growth and development in Africa.

We are devoting a great deal of effort to identifying and supporting transactions that advance food security. DFC more than tripled its annual goal for food security and agricultural project commitments in FY 2022, committing a total of $620 million to such projects. Food insecurity, driven by climate events and the impact of the Ukraine conflict on global food commodity markets, is already worsening in several African countries, including those in the Sahel and the Horn of Africa, many of which are already considered fragile by the OECD. One DFC investment, committed in FY 2022, aims to support smallholder farmers with fertilizer across sub-Saharan Africa: DFC will provide a loan of up to $20 million to One Acre Fund which will facilitate the provision of agricultural inputs, mainly fertilizer, and services on credit to approximately 412,000 smallholder farmers (1,648,000 farming household members) including approximately 206,000 female farmers to increase their harvests. The amount of the credit One Acre Fund provides is, on average, six times smaller than the average loan from microfinance institutions working in East Africa.

DFC has also committed to support numerous power generation and transmission projects across Africa. Our focus on the power sector predates the OPIC transition to DFC, when the Corporation committed financing and political risk insurance to ContourGlobal for the construction of the 100 MW Lomé Thermal power plant in Togo. At the time of commitment, it represented the largest electricity investment ever made in Togo and the first international financing project ever completed by the Government of Togo. Since the project was committed, Togo has taken additional steps to promote electrification by strengthening legal frameworks and regulatory capacity. The United States Strategy to Prevent Conflict and Promote Stability prioritizes fragile states in Coastal West Africa, including Togo, for targeted assistance. DFC is playing similar catalytic roles in its support for power projects in Sierra Leone, where a DFC-supported project will generate enough power to meet approximately 24 percent of projected electricity demand in a country where only 15 percent of the population has reliable access to power. DFC is also investing in funds that expand off-grid energy in rural Africa through its support for the Energy Entrepreneurs Growth Fund and has committed a $25 million loan for a solar generation and battery storage project in Malawi.

Strengthening the capacity of the healthcare sector in Africa is another important priority for DFC in Africa. DFC provided a $5 million direct loan to Africa Healthcare Network (AHN), the largest operator of dialysis centers in East Africa, to expand access to affordable, high-quality healthcare across sub-Saharan Africa to help fight non-communicable diseases. DFC also made a $1 million equity investment in Kasha Global Inc., an e-commerce company that provides health and personal care products to customers in Rwanda and Kenya, to transform the health system supply chain in East Africa. Finally, DFC is supporting projects that bolster capacity to manufacture vaccines locally, including a €100 million loan to Aspen Pharmacare in South Africa and a $3.3 million technical assistance grant to Institute Pasteur de Dakar (IPD) in Senegal to expand vaccine manufacturing capacity for both COVID-19 and other critical vaccines. By the end of June 2022, only one in three people in fragile contexts had received a dose of a COVID-19 vaccine compared to three in four people in OECD countries. This underscores our commitment to supporting additional projects that expand regional vaccine and other health commodity manufacturing and distribution to improve pandemic preparedness and health system resilience.

As Congress recognized when crafting the Global Fragility Act, U.S. efforts are more effective when they are coordinated across the Federal Government, when we engage the private sector, and when we involve local partners. DFC is carrying out the vision of the Act through its work in Africa. One example of a new and fruitful collaboration for us is the Africa Small Business Catalyst (ASBC), a business accelerator for early growth-stage small- and medium-sized enterprises (SMEs) in sub-Saharan Africa. A partnership between DFC and the U.S. African Development Foundation (USADF), ASBC seeks to support small and medium enterprises in Africa focused in key sectors including agriculture and food security, education, healthcare, and water, sanitation, and hygiene. By combining business support tools of DFC and USADF, ASBC can offer loans ranging from $100,000 to $1 million and technical assistance and grants up to $100,000 to eligible companies.

Interagency collaboration is deeply engrained in both our corporate governance, in which several agency heads participate, as well as our everyday business processes, like deal origination and sourcing. To advance the Prosper Africa initiative, DFC established the Prosper Africa Transaction Unit to underwrite deals in coordination with the Prosper Africa Executive Secretariat and USAID. DFC leads an interagency working group called the Development Finance Coordination Group that brings together working-level staff from 16 agencies to align tools and resources to advance DFC's goals. DFC has formal cooperation and resource-sharing agreements with several agencies, has pursued blended finance mechanisms, and participates actively in interagency processes to improve development outcomes. DFC also has a network of liaisons at USAID Missions across the globe who help source new transactions. They work closely with DFC's Mission Transaction Unit, which includes the former members of USAID's Development Credit Authority office.

Though our goals are ambitious and addressing the root causes of fragility is complex and challenging, we are optimistic that by working in concert with our partner U.S. Government agencies and others, we can help deliver long-term and sustainable development impact for the people of Africa. When pursuing this work, we aim to carry forward the vision laid out in the BUILD Act of 2018 for the Corporation to serve as an entity that creates economic opportunities for the world's poor and marginalized and helps fulfill U.S. strategic priorities. The COVID-19 pandemic, the food security crisis, and the regression toward authoritarianism and political violence stand to make Americans less safe by exposing them to international pandemics, terrorism, and macroeconomic shocks. Supporting private sector investment in fragile contexts is one of the best ways that DFC can meet the development needs for Africa while serving the interests of the American people.