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Financing Overseas Development: The Administration's Proposal

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Introduction

Thank you for inviting me to testify today on this critical topic.

Chairman Royce - I'd like to acknowledge the work you have done to advance U.S. foreign policy, particularly in Africa. From the *African Growth and Opportunity Act* to empowering women to *Electrify Africa*, you were a step ahead. Ranking Member Engel, your leadership has been instrumental in strengthening U.S. engagement in the world, particularly in the Western Hemisphere.

Indeed, this Committee's work has helped set the stage for the Administration's proposal for the United States to establish a reformed, more effective *Development Finance Institution* - with modernized tools - and a focus on supporting private sector driven development.

Development Finance and the International Landscape

When it comes to meeting the massive development needs around the globe and advancing American foreign policy, this proposal - and the legislation the committee is weighing - is essential.

As you know, "development finance" uses tools such as loans, guarantees and political risk insurance to facilitate private-sector investment in emerging markets that will have positive developmental impact. These are transactions the private sector won't do on their own.

The U.S. Government has used these tools through the *Overseas Private Investment Corporation* (OPIC) to back projects in key sectors such as power, water, and health that improve the quality of life for millions, and lay the groundwork for creating modern economies.

Likewise, the U.S. Government has used USAID's *Development Credit Authority* (DCA) risk-sharing guarantee program to drive private investment into countries and sectors that have not had sufficient - or any - access to commercial finance.

This model of mobilizing private investment is only becoming more prominent, as the needs in the developing world are just too great to meet with official government resources alone.

Yet, U.S. capabilities have become outdated. We have been operating for years without significant legislative updates.

As a result, we lack the modern, 21st century mechanisms needed to either compete with countries like China, or cooperate with allies like the United Kingdom, Germany, and Japan, which are investing heavily in emerging markets.

And a global competition for influence is on. While I was in Asia, I saw how China's *One Belt, One Road* initiative is changing the political and economic landscape. The amount of investment China reportedly has planned for this initiative is staggering - aimed at interconnecting about 65 percent of the world's population, about one-third of the world's GDP, and about a quarter of all goods and services.

Of course, a condition of many of these loans is that Chinese firms – and labor – get the business. And we know what happens when countries can't pay. In December, for example, Sri Lanka gave control of a strategic port to Beijing for 99 years. This comes as China has been stepping up its presence in the Indian Ocean region and its critical shipping lanes.

Mr. Chairman – we have to be engaged in the developing world with a robust alternative to these state-directed investments, which can leave developing countries worse off. This state-directed approach is not consistent with our values, which incorporate the high standards of international financial institutions related to governance, transparency, debt sustainability, environmental, and social safeguards.

The President's Initiative

We have that alternative in a new, U.S. Development Finance Institution (DFI).

This proposal is a result of the President's Executive Order on reorganizing government, which prompted a fresh look at the issue. Over several months, we worked closely with the Department of State, USAID, and others through an inter-agency effort, led by the Office of Management and Budget and the National Security Council, to discuss challenges related to development finance. This group concluded that the U.S. Government's ability to deploy these tools strategically is limited by outdated legal authorities and fragmentation across government.

With this in mind, the Administration developed a proposal to improve efficiencies, reform programming, and, as envisioned by the National Security Strategy, elevate development finance to help advance U.S. foreign- policy goals.

Proposed Development Finance Institution

The President's Fiscal Year 2019 Budget Request proposes to consolidate multiple U.S. development-finance functions, such as OPIC and USAID's DCA, into a new, standalone, Development Finance Institution (DFI) that will coordinate all development financing.

The DFI will have better policy alignment through updated governance structures and stronger linkages to State and USAID to ensure the DFI's transactions also align with U.S. foreign policy and leverage USAID's programming. For example, the linkages include $56 million requested in Economic Support and Development Funding that can be used to provide complementary technical assistance and grants for potential DFI projects that need a bridge to becoming investment ready. We also need to establish innovative governance and management structures to make sure the DFI works closely with USAID's Bureaus and field Missions, so USAID can invest in the DFI's transactions. Similarly, U.S. Embassies and diplomats will explore and champion new market opportunities on behalf of U.S. commercial, development, and national security interests.

The Administration is requesting $96 million in administrative expenses and $38 million for credit programing, project-specific feasibility studies, and other tools for the DFI. However, through careful loan and insurance underwriting, it is expected the DFI will not only offset its own operation and program costs but also return hundreds of millions of dollars to the Treasury.

The new DFI will include reforms to better manage taxpayer risk and ensure that US government investments are additional to the private sector. We must ensure that while our work supports the creation of economic growth in emerging markets, it will not displace the private sector or subsidize projects that can or should find their own financing. And we must also ensure that this work upholds the highest environmental, social and worker rights standards.

Another part of a reformed DFI is increased transparency and accountability. One example of how the DFI will achieve these objectives is through an expanded inspection, oversight, and evaluation function. The President's Budget requests a robust $2 million for this purpose.

Conclusion

Mr. Chairman: In seven months as the head of OPIC, I've seen the power of the private sector unleashed to advance U.S. policy:

- ✓ OPIC approved a transaction which will increase Ukraine's energy independence from Russia;

- ✓ OPIC formally launched its 2X Women's Initiative to catalyze over $1 billion in capital to invest in projects that empower women and stabilize communities; and

- ✓ OPIC signed a Memorandum of Understanding with our Japanese counterparts to bolster investment in critical sectors in the Indo-Pacific and beyond.

A new, modernized DFI could be far more innovative and competitive, creating countless opportunities for communities throughout the developing world who will benefit from the economic impact of its investments.

But this modernization of development finance cannot happen without the support of this Committee through authorizing legislation. We are thankful for the leadership of Mr. Yoho and other Members for embracing this concept through H.R. 5105, and look forward to working with the Committee on the details of this legislation to ensure it grants the DFI the authorities and creates the structure needed to foster its long-term success.

I would be happy to address any questions you may have.