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"Assessing U.S. Efforts to Counter China's Coercive Belt and Road Diplomacy"

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Chairman McCaul, Ranking Member Meeks, and Members of the Committee. Thank you for convening this hearing and inviting me to testify on behalf of the United States International Development Finance Corporation (DFC).

Congress created DFC through the BUILD Act, in part to offer a better and more sustainable alternative to the Belt and Road Initiative (BRI). DFC catalyzes investment from the private sector and empowers developing countries, helping them take advantage of their own resources – including human resources and commodities – so that they can tackle poverty, accelerate inclusive and sustainable economic growth, and become stable U.S. trading partners. DFC helps provide countries with a choice other than the one that they long faced: accept the risks of dependence, environmental degradation, and harm to local communities that come with working with the People's Republic of China (PRC) or forgo an opportunity to develop their economies.

The PRC designed the Belt and Road Initiative with its own interests in mind – giving the PRC access to strategic resources to drive its own economic growth and foreign policy objectives. Unlike the development approach of the PRC, which often burdens countries with unsustainable sovereign debt and projects that are often unsuitable for local conditions, DFC's efforts are directed toward supporting private entities, mobilizing private capital, and building resilient market economies. Our model stands apart from the Belt and Road Initiative in several ways: we emphasize partnership with the private sector, we look for opportunities for small businesses and underserved communities to benefit, and we seek long-term sustainability and inclusive growth.

DFC's recent track record investing in critical infrastructure demonstrates the impact that this model can have. In Ecuador, DFC is making a $150 million commitment to the modernization of Puerto Bolivar, which will become one of the most advanced ports on the Pacific Coast of South America.

DFC's work in Sierra Leone in West Africa demonstrates how DFC support for infrastructure is improving people's lives. We have invested in providing greater broadband access to a significant swath of the population, helped to increase the country's capacity for energy generation by nearly 25 percent, and are working to significantly improve the country's main airport to connect the people of Sierra Leone to global markets and opportunities.

DFC is also working to diversify supply chains away from the PRC in key sectors, including critical minerals where Beijing mines or processes well over 80% of global supply. For example, DFC is providing $30 million equity investment into TechMet Limited, a U.S. aligned critical minerals mining platform, to support its Brazilian nickel and cobalt mining project. TechMet is dedicated to securing U.S. and allied access to critical minerals and diversifying the sourcing of critical minerals away from authoritarian governments. DFC is also supporting the efforts of an American company, First Solar, to construct a solar photovoltaic module manufacturing facility in India that we expect will help challenge PRC market dominance and demonstrate that the solar photovoltaic industry can feasibly reduce its reliance on PRC supply chains.

DFC focuses on working with the private sector because closing the $40 trillion global infrastructure financing gap is beyond the capacity of any development finance institution or state actor to address alone. DFC amplifies its impact by working closely with the development finance institutions of our allies and partners, including the Partnership for Global Infrastructure and Investment (PGII) through the G7. We also focus our efforts on private business because of the catalytic nature of private sector-led development. An investment in a private business has the potential to create follow-on benefits for local economies beyond the initial investment. Through our work, we hope to demonstrate that mobilizing private capital is the most sustainable and effective way to achieve durable development outcomes.

Our investments carry forward U.S. values of openness, respect for local laws and conditions, transparency, and internationally recognized environmental, social, and labor standards. By championing these values and engraining them into all aspects of DFC's work, we enhance the long-term sustainability of our projects, amplify development impact, and guard against the danger that projects will harm local populations, as BRI projects have too often done. DFC's processes also provide greater certainty that a project will deliver on the benefits it claims, while preventing our projects from abetting corruption. Supporting high-quality, sustainable projects has been a focus of DFC from the beginning, and we have continued to enhance our capacity to monitor and measure our impact.

While we are confident in the strength of our model, we know that we need to strengthen DFC's ability to counter the Belt and Road Initiative effectively and at scale. We have heard from our clients and partner governments that they want DFC to do more and to do it faster. In response, DFC is in the process of building our overall capacity and aligning our organizational structures and processes to meet demand in priority sectors where there are enduring needs, including infrastructure, energy, health, food and agriculture, and support for small businesses. We have worked to streamline our investment processes by shortening timelines, reducing paperwork, and improving our Board of Directors procedures.

Energy, infrastructure, and critical minerals are priority sectors for DFC because of their importance to economic development as well as to the competitiveness of the United States. In the energy sector, we are pursuing a balanced approach that recognizes that the PRC is competing aggressively to dominate the clean energy industries of the future, while also recognizing that there are circumstances when we will need to support countries in their electrification objectives through fossil fuels for strategic and developmental impact purposes. This balance is reflected in projects we are doing to bolster energy security in Central Europe and our ongoing efforts to support sustainable electricity through the deployment of solar power in South America.

DFC's other priority areas – health, food and agriculture, and support for small businesses – are no less important to DFC's ability to offer an alternative to PRC investment and counter the Belt and Road Initiative.

DFC's attention to small businesses and underserved communities stands in contrast to the BRI. Since Fiscal Year (FY) 2021, DFC has provided over $430 million in loans and loan portfolio guarantees to support small businesses and underserved populations in sub-Saharan Africa. We are also working in sectors that are overlooked by the BRI, including health and food security, because our investments are not about grabbing as many resources for ourselves as possible, but about investing in the vast human resources in developing economies. Since 2020, DFC has approved over $2.6 billion in global health projects. In food security and agriculture, DFC committed a total of $625 million to 38 transactions in FY 2022– more than doubling its FY

2021 commitments. The Belt and Road Initiative is simply not focused on these sectors or on small businesses. Instead, BRI investments tend to support unwieldy state-owned enterprises, PRC-domiciled companies, and PRC labor.

Making sure that small businesses and underserved communities benefit from investments is critical to ensuring political stability in countries and preventing countries from suffering from destabilizing political swings. While the PRC often brings in its own labor force on projects, even having operations manuals written in Chinese, the projects we support create local jobs, bring more people into the formal economy, and train workers so they can build skills, all of which help promote economic opportunities and prevent migration or participation in illicit activities.

At the same time, by looking out for the interests of the countries where we work, strengthening small businesses, and encouraging high standards, we are helping countries emerge from poverty, strengthening the economic linkages between the United States and developing countries, and setting countries on a path to becoming reliable trading partners of the United States. This is also in our strategic interest.

DFC projects demonstrate our focus on local needs. For example, DFC committed to providing a loan of up to $80 million to Banco Atlantida in Honduras to expand its lending to businesses in the country, which face an estimated $2 billion credit gap. DFC is also supporting access to clean water and sanitation through a $100 million loan to the Water Equity Global Access Fund (GAF) IV, which will use DFC loan proceeds and financing from other investors to ultimately help people in developing countries access clean water and improved sanitation services and products. DFC is also using its powerful equity tool to invest $18 million into BuyMed, a Vietnamese company, to expand pharmacies, clinics, and hospitals' access to pharmaceutical products in rural areas.

In addition to our priority sectors, DFC is working on innovative solutions. For example, DFC provided $656 million of political risk insurance to support the largest debt-for-nature swap in history in Ecuador. This transaction provides funding to protect the expanded marine conservation area around the Galapagos from illegal fishing by Chinese fleets. And, at the same, time we helped reduce Ecuador's public debt burden by $1 billion.

Congress and this Committee have recognized the close linkage between development and U.S. strategic interests, and we are thankful for your continued support, which has enabled us to build our capacity and enhance our impact. DFC committed $7.4 billion to more than 180 projects in FY 2022 and has continued to scale up its work to meet global needs. From FY 2020 to FY 2022, DFC has seen 14 percent growth in annual commitments by dollar value and 132 percent growth in the number of projects committed.

We are eager to do more, with the continued support of Congress. Current rules prevent DFC from taking full advantage of the important equity tool that the BUILD Act gave us. To address this, the President's budget proposes the creation of a new $2 billion revolving equity fund to expand equity investments at DFC.

We are also seeking to expand our presence overseas so that DFC can be more connected to local markets and better develop a pipeline of strategic and developmental transactions. Additionally, we have identified infrastructure and critical minerals; energy; health; food and agriculture; and small business support as areas of particular focus. In each of these areas, the United States and DFC have strong competitive advantages that we can bring to bear.

Through partnership with Congress, ongoing focus on our strategic and developmental priorities, and continuous improvements to our operations, we are positioning DFC to be a powerful, long-term presence in developing countries – one that demonstrates that the United States can compete effectively with the PRC model, drive sustainable economic development, and advance the strategic interests of the United States. Thank you again for the opportunity to testify, and I look forward to your questions.