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MODERNIZING DEVELOPMENT FINANCE

HEARING

BEFORE THE

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UNITED STATES SENATE

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MODERNIZING DEVELOPMENT FINANCE

THURSDAY, MAY 10, 2018

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:02 a.m., in room SD–419, Dirksen Senate Office Building, Hon. Bob Corker, chairman of the committee, presiding.

Present: Senators Corker [presiding], Gardner, Young, Menendez, Cardin, Coons, and Kaine.

OPENING STATEMENT OF HON. BOB CORKER, U.S. SENATOR FROM TENNESSEE

The CHAIRMAN. Foreign Relations Committee will come to order.

You seem awfully jovial on this side of the aisle——

Senator MENENDEZ. We are.

The CHAIRMAN. —tonight. I do not—today—I do not know what that is about, but I am glad to see it.

I thank our witnesses for being here today as we consider how the U.S. can modernize our development finance efforts. Our foreign assistance program should set the goal of putting themselves out of business. We should promote economic growth and job creation that will enable developing countries to stand on their own and provide their citizens with opportunity, and lead them out of poverty.

At no net cost to taxpayers, Development Finance Institutions can play an important role in facilitating lending to help local businesses in the developing world grow and attract foreign investors. But, our current agencies are not equipped for the 21st-century challenges and opportunities.

The Overseas Private Investment Corporation, OPIC, as we call it, used—uses public-sector tools, such as loans, guarantees, and insurance to provide private-sector investment flows in the developing world—into the developing world, where access to capital and market rates may not be accessible. However, as OPIC approaches 50, the corporation lacks the modern tools to fully engage the private sector in developing countries.

To address those deficiencies, we have introduced the Better Utilization of Investments Leading to Development, or BUILD, Act. Our bipartisan legislation will reform and consolidate financing activities of OPIC and USAID. The administration and key stakeholders, including the ONE Campaign, the U.S. Global Leadership Coalition, and the U.S. Chamber of Commerce, have strongly em-

braced the goals and concept of our legislation in a companion bill introduced in the House.

In a statement of support released last month, the White House said the BUILD Act is broadly consistent with President Trump's commitment to the Asia-Pacific Economic Cooperation Forum last November that the U.S. is committed to reforming its Development Finance Institutions to better incentivize private-sector investment in developing countries as a clear alternative to state-led financing initiatives that undermine state sovereignty. The White House also warned that our development finance tools are outdated, fragmented, and often not well-coordinated, hampering our ability to achieve key U.S. foreign policy and national security objectives while contributing to an inefficient use of taxpayer dollars. They also agree that reform will help the U.S. compete more effectively in a new era of strategic competition.

Establishing a new Development Finance Corporation provides the private-sector alternative to China's aggressive and potentially damaging lending through the Belt and Road Initiative and other finance efforts. China seeks to promote a state-led, centrally-planned development model that benefits China, first and foremost. While China's lending practices are opaque, estimates of Chinese current and planned lending often to countries with high debt-to-GDP ratios ranges from 100 billion to into the trillions. The new U.S. International Development Finance Corporation created by our bill instead would advance responsible lending so citizens in recipient countries will be full participants in economic growth. With a modern Development Finance Corporation, we could increase the effectiveness and reach of U.S. aid and strength market—strengthen market economies abroad. We could better promote private-sector economic growth that creates middle-class consumers and industries. Not only would this growth help reduce our foreign-aid budgets over time, it can lead to consumers abroad who can buy U.S. exports. Both the public-sector and private-sector interests can benefit from the growth of market economies in developing nations. It is in our national interest to encourage the opportunities that can result from this common interest in economic growth in the developing world.

We thank our witness for being here. We thank him for his service to our Nation.

And, with that, turn to my friend, our distinguished Ranking Member, Bob Menendez.

STATEMENT OF HON. ROBERT MENENDEZ,
U.S. SENATOR FROM NEW JERSEY

Senator MENENDEZ. Thank you, Mr. Chairman, for calling this hearing.

It is critical that this committee maintains oversight over U.S. development efforts to ensure that they are effectively promoting our interests abroad. And I have long supported expanding our vision of development to ensure the United States can best pursue broader economic statecraft rooted in sound principles of development, diplomacy, and leveraging the private sector. As a matter of fact, when I was chairman of the committee, we authored a white paper on this topic, so it is an issue of some importance.

Centuries of history have proved that using American resources to help other countries lift their citizens out of poverty, respond to disasters, and support private-sector growth directly contributes to prosperity and stability throughout the world. As we consider modernizing development financing, we must ensure that development, along with defense and diplomacy, remains a pillar of our foreign diplomacy. Specifically, the U.S. Agency for International Development must continue to lead our development efforts in advance of national interests. I am disappointed that USAID does not have a witness here today. USAID's perspective is essential as we move forward. And I will certainly be looking forward to having conversations with Administrator Green before I am personally ready to move forward.

Around the world, nations, from the United Kingdom to China, use various state-sponsored development financing mechanisms to help their domestic industries invest in developing economies, which, in turn, contribute to economic growth and job creation in the partner countries. The United States has a different history and model of private business versus state-owned enterprises. The Overseas Private Investment Corporation has an integral role in assisting U.S. to do the business of development in emerging markets. USAID supports private-sector partnerships through the Development Credit Authority, the Global Development Lab, and the Private Capital Group. These efforts leverage critical, sustainable partnerships to transition communities towards self-reliance, Administrator Green's central mission. We must take steps to ensure that our government agencies are in the best position to facilitate private-sector engagement abroad, to foster entrepreneurialism and job growth, infrastructure, and raising worker standard, which ultimately contributes to wider prosperity and, potentially, new markets for U.S. goods and services.

However, I remain concerned about the administration's overall approach to development. The administration's first budget shuttered OPIC. This year, it calls for an enhanced Development Finance Institution with more resources and authorities, and I still do not know what the administration wants to do with the Trade and Development Agency.

So, I come to this hearing with real concerns about the bigger picture of the administration's foreign policy vision and how a new development finance entity will fit in. The BUILD Act elevates and enhances OPIC's current authorities by consolidating financing entities, including USAID's Development Credit Authority. However, I have several concerns. First, we must ensure that the new Development Finance Corporation's mission has development at its core and does not just function as a bank. Two, a new Development Finance Corporation must have a board that reflects the dynamism and innovation occurring in sectors ranging from finance and international development to human labor and environmental rights. Thirdly, development initiatives must serve our policy objectives while maintaining high levels of accountability to the communities they serve and to the American taxpayer.

In closing, I would like to offer two examples of how development financing can contribute to job growth and U.S. national security. OPIC has partnered with Habitat for Humanity and MicroBuild to

help build homes for 120,000 families in 19 countries, from Azerbaijan to Zambia. With a roof over their head, individuals and families are far more likely to go to school, to find a job, and to ultimately support their communities. In another example, Holtec, based in Camden, New Jersey, has partnered with OPIC to construct a long-term fuel storage facility in the Chernobyl exclusive—Exclusion Zone of Ukraine. This project, by breaking a Russian monopoly on nuclear waste disposal, advances U.S. national security priorities and is expected to generate more than $200 million in procurements of American goods and services.

Mr. Chairman, I ask consent that the statements by Habitat for Humanity and Holtec be added to the record at this point.

The CHAIRMAN. Without objection.

[The information referred to above can be found at the end of this document.]

Senator MENENDEZ. Because of stories like these, I have long advocated for multiple tools to pursue a comprehensive policy of economic statecraft.

So, as we move forward, I will look forward to working with you, the administration, and critical voices from civil society and international development organizations to diligently ensure that we maintain the integrity of development operations while building new development finance tools and explore new investment options.

Look forward to the testimony and the questions. And thank you, again, Mr. Chairman, for an important hearing.

The CHAIRMAN. Thank you.

Our first witness is Mr. Ray Washburne, President and CEO of OPIC, our Nation's Development Finance Institution. He is a real estate investor, restaurant developer. Mr. Washburne has served on the board of—and loan committees of several banks, infrastructure, construction, and manufacturing businesses. Well-equipped to lead this great organization.

We thank you for being here and, again, for your service. If you would keep your comments to about 5 minutes, that would be great. And any written documents you have, we will be glad to enter into the record. If you would begin.

Thank you.

STATEMENT OF HON. RAY WASHBURNE, PRESIDENT AND CEO, OVERSEAS PRIVATE INVESTMENT CORPORATION, WASHINGTON, DC

Mr. WASHBURNE. Chairman Corker, Ranking Member Menendez, members of the committee, thank you for inviting me to testify today on this critical topic.

Chairman Corker, I would like to acknowledge all the work you have done to advance U.S. foreign policy. From Electrify Africa to efforts to combat human trafficking, you have been a champion for those in need around the globe.

Ranking Member Menendez, your leadership has been instrumental in strengthening U.S. engagement in the world, particularly in the western hemisphere.

Indeed, this committee's bipartisan 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. 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 will not do on their own. Through OPIC, the U.S. Government has used these tools to back projects in key sectors, such as power, water, and health, that improve life for millions and lay the groundwork for economic growth. Likewise, the U.S. Government has used USAID's Development Credit Authority to drive private investment into countries that have not had access to commercial finance. This model for modernizing private investment is only becoming more prominent as the needs in the developing world are just too great to meet with government resources alone. Yet, U.S. capabilities have become outdated as we have gone without significant legislative updates. As a result, we lacked the modern 21st-century mechanisms needed to either compete with countries like China or cooperate with allies like Britain, Germany, and Japan, which are investing heavily in emerging markets.

And the global competition for influence is on. While I was in Asia, I saw how China's Belt and Road Initiative is changing the political and economic landscape. The amount of investment China has planned for this initiative is staggering, aimed at interconnecting 65 percent of the world's population, one-third of the world's GDP, and 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 cannot 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 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. And we have that alternative in a new U.S. Development Finance Institution, or DFI. This proposal is a result of the President's executive order on reorganizing government, which promoted a fresh interagency look over several months. We found that the U.S. Government's ability to deploy these tools strategically is limited by outdated legal authorities and fragmentation.

With this in mind, the administration developed a proposal to improve efficiencies, reform programming, and, as envisioned by the National Security Strategy, elevate these tools to advance U.S. foreign policy goals. The President's budget proposes to consolidate multiple U.S. development finance functions into a new standalone Development Finance Institution. The DFI will have better policy alignment and strong links to the State Department and USAID to ensure its transactions align with U.S. foreign policy and leverage USAID's programming. This includes funding for technical assistance in grants for potential DFI projects that need a bridge to becoming investment-ready. We also need governance and manage-

ment structures to ensure the DFI and USAID's field missions work seamlessly.

The new DFI will include reforms to better manage taxpayer risk and ensure its investments are additional to the private sector. We do not support projects that could, or should, proceed on their own. And we will also ensure that our work upholds the highest environmental, social, and worker-rights standards. Another part of a reformed DFI is increased transparency and accountability through expanded inspection and oversight.

In conclusion, Mr. Chairman, in 9 months as the head of OPIC, I have seen the power of the private sector unleashed to advance U.S. policy. OPIC approved the transaction which will increase Ukraine's energy independence from Russia. OPIC formally launched its 2X Women's Initiative to catalyze over a billion dollars in capital to invest in projects that empower women worldwide. And OPIC signed an MOU with our Japanese counterparts to bolster investment in the Indo-Pacific region and beyond. A new modernized DFI could be far more competitive, creating countless opportunities throughout the developing world, but this modernization of development finance cannot happen without the support of this committee. I am extremely thankful for the leadership of Senator Corker and Coons and the many other Senators on the committee for embracing this concept through S. 2463. Indeed, the administration has noted its strong support for the goals of the legislation. I look forward to working with the committee as the process moves forward to ensure the DFI is structured for long-term success.

I will be happy to answer any questions you might have.

[The prepared statement of Mr. Washburne follows:]

PREPARED STATEMENT OF RAY W. WASHBURNE

INTRODUCTION

Chairman Corker, Ranking Member Menendez, Members of the Committee—thank you for inviting me to testify on this critical topic.

Chairman Corker—I'd like to acknowledge all the work you have done to advance U.S. foreign policy. From Electrify Africa to efforts to combat human trafficking, you have been a champion for those in need around the globe. Ranking Member Menendez, 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 U.S. 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 inspec-

tion, oversight, and evaluation function. The President's Budget requests a robust $2 million for this purpose.

CONCLUSION

Mr. Chairman: In 8 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 Senator Coons and the many other Senators on the Committee for embracing this concept through S. 2463, 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.

The CHAIRMAN. Thank you very much.

I know your statements indicate this, but, just for the record, and for other members who are not here, the administration fully supports the legislation that we are discussing today. Is that correct?

Mr. WASHBURNE. Yes, sir.

The CHAIRMAN. Yeah. You know, I listened to the Ranking Member's comments, and I think we all have had concerns about where we are going as it relates to being able to help other nations. In some ways, it is somewhat surprising that we have a piece of legislation that the administration is behind and, it looks like, in a bipartisan way people want to see occur. Could you share a little bit about some of the concerns that you and others have about what China is doing in other countries today?

Mr. WASHBURNE. Yes. Thank you.

OPIC currently operates in 90 countries around the world. We are open in 130 countries. And, as we travel, whether I was in Peru, at the Summit of the Americas a few weeks ago, to Africa, the Chinese are everywhere. And we are—we cannot match them dollar for dollar, and there is no intent to match them dollar for dollar, but there is a lot of strategic investments we can make to counter the Chinese influence around the world. And that is why I have recently signed an MOU with the Japanese government as well as the Australian government, in the Indo-Pacific region specifically, to work together on projects that we can not only source together, but also invest in together. In fact, this week, the—my Japanese counterpart was in Washington, and he came over to meet, and we went over multiple projects we are looking at doing together.

The CHAIRMAN. What would the equity component—I know today you are constrained only to loan money, but tell us the kind of things that, with the addition of using equity—tell us what that might mean to an organization like, hopefully, will be created.

Mr. WASHBURNE. Well, the way OPIC was originally set up in 1971, there has not been any change in our basic structure in how we can invest in projects. And, as you know, the world has changed substantially in the finance sector. We are being left out of a lot of projects by other countries because their DFIs all have the ability to actually be—put an equity piece in the projects. And so, since we only have a debt product, we are getting not only cut out of a lot of projects, but people just do not want us involved because we are senior debt to everyone, and they want to be pari-passu with us in the equity component of it.

The CHAIRMAN. What—my understanding is, we have worked—you have worked very closely with USAID. And actually, there was a markup yesterday, as I understand it, in the House, where some of the concerns that USAID had with this type of legislation were addressed. And a number of amendments were incorporated yesterday in the House to take care of some of the objections that they had. Can you share with us a little bit about how the process is working with USAID? There are numbers of people on this committee that strongly support the work that they do, and obviously do not want to diminish their ability to do their job.

Mr. WASHBURNE. Yes, sir. We have worked very closely with USAID. Administrator Green and I have met several times on this. He is supportive. The White House has given us a letter in support, which—what is being created through this new bill is a chief development officer. It is a new position. And that will ensure that we work seamlessly with USAID to meet their objection—their objectives of what they want to do. And so, what we are bringing in from USAID is actually fairly small. It is an agency that has 30 employees, about $500 million currently. But, we understand the importance that they are doing, but we are going to give their field officers a lot more tools to work with.

So, actually, it is a huge benefit to USAID. They are going to go from being able to do one type loan, now they are going to have seven to eight different products that they can do. And it is important for us to have, because OPIC is really Washington's center project. We do not have field offices. Is—now USAID and ourselves will be able to work together. It gives them a lot more capital to go out around the world and do projects. And they have the boots on the ground.

The CHAIRMAN. So, USAID will actually be the face of the organization in these countries. Is that correct?

Mr. WASHBURNE. Well, they will be carrying—they will be like a rainmaking source for us. Yes, sir. Just like we use Commerce Department now, and their field officers, when we travel around the world. When we land, we need people on the ground that know the local markets.

The CHAIRMAN. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Mr. Washburne, thank you for your testimony.

We have come a long way from the administration's first budget, which—where the fate of OPIC was uncertain. We have an ambitious task before us.

So, let me just follow up on the last question of the Chairman. So, if we bring Administrator Green here, put him under oath, he is going to say that he fully supports the legislation as it is?

Mr. WASHBURNE. Well, I cannot speak to what he would say under oath, but I do know——

Senator MENENDEZ. You say he is supportive. Would it change under oath?

Mr. WASHBURNE. Well, I cannot speak to what his feelings would be. He—I have not had any objections from him in my meetings with him.

Senator MENENDEZ. Can you—so, to understand where we are headed, I think we have to understand a few questions with regard to the financial health and development impact that you are having at OPIC. So, can you discuss for us OPIC's current portfolio as it relates to projects you deem highly developmental? And how do you determine that?

Mr. WASHBURNE. Yes, sir. Last week, we cut the ribbon in Honduras on a geothermal plant that is going to supply electricity to 40,000 homes in Honduras, not—these are homes that either do not have electricity or very spotty electrical service. It is not only going to transform that community, it is also going to enable that area to have—businesses to develop and economic activity happen; whereas, before, they had no electricity whatsoever. Yesterday, at our investment committee, we approved a loan in Africa to create cellphone service into four countries that—average GDP income in those countries is less than $500 a person. And so, those are two examples of how we are changing lives in those two countries.

Senator MENENDEZ. And what is your standard for the—develop—saying something is highly developmental? What is your rule? What is your standard? What is your process by making that determination?

Mr. WASHBURNE. Well, every project—we are currently at 675 projects. Every one has to stand on its own. Each one has its own objectives. So, there is not an in-writing standard for something, but we view everything through the lens of—through our committees, and we have many people——

Senator MENENDEZ. Does——

Mr. WASHBURNE. —walking through——

Senator MENENDEZ. Does something have to have a certain outcome? Does it——

Mr. WASHBURNE. Well——

Senator MENENDEZ. —have to have a certain ripple effect? There must be some——

Mr. WASHBURNE. Well, we——

Senator MENENDEZ. —paces by which——

Mr. WASHBURNE. —we do have a developmental matrix, which I am happy to get for you, on——

Senator MENENDEZ. I would like to see that.

Mr. WASHBURNE. —the impact, it happens.

Senator MENENDEZ. Yeah, I would like to see that.

Mr. WASHBURNE. Yes, sir.

Senator MENENDEZ. Let me ask you this. In discussing OPIC's current development scorecard, the methodology in measuring the develop impact of a deal, how do you look at that?

Mr. WASHBURNE. Developmental——

Senator MENENDEZ. Yeah. Looking at your current development——

Mr. WASHBURNE. Yes, sir.

Senator MENENDEZ. —scorecard, what is the methodology in measuring the development impact of a deal?

Mr. WASHBURNE. Well, that is the matrix, so that—I would be happy to——

Senator MENENDEZ. It is the same matrix?

Mr. WASHBURNE. Yes, sir.

Senator MENENDEZ. Okay. You will submit that to——

Mr. WASHBURNE. Yes, sir.

Senator MENENDEZ. —the committee?

Mr. WASHBURNE. I will.

Senator MENENDEZ. So, the question would be, can that methodology, or your matrix, be enhanced to support the new development corporation's approach to measuring its projects and integrating a monitoring and evaluation protocol for projects beyond the financial close of the project?

Mr. WASHBURNE. I am sure—if that is what the committee would like to present in the bill, yes, sir.

Senator MENENDEZ. Is that something—but, is that something——

Mr. WASHBURNE. Well——

Senator MENENDEZ. —that you have considered independently?

Mr. WASHBURNE. I would have to look at what the language would look like.

Senator MENENDEZ. Let me ask you this. You have indicated an interest in pushing OPIC to do more deals in Latin America, something that I would like to see, as well. Tell us about the profile of investors who are engaging OPIC to do deals in Latin America. What countries and sectors are they gravitating towards?

Mr. WASHBURNE. Well, one thing, we have tried to be is a little more outward-facing in projects. So, we have had teams down in what is—the T&T, which is the northern triangle of El Salvador, Guatemala, Honduras, looking for projects. So, rather than waiting for incoming calls under those areas, we have gone down to see what are the needs in those countries. For example, in Honduras, the geothermal plant to supply electricity. And then we try to match them up with development partners. We support—right now, 24 percent of our portfolio is in Latin America. And, like I said, I was recently in Lima. We were looking at projects in Peru, Colombia, throughout the—Latin America.

Senator MENENDEZ. Let me ask you this. You noted that USAID is supportive, but I understand that part of the challenge is that USAID missions, which do much of this work on the ground, do not have visibility or access to OPIC, which is demand-driven from U.S. businesses. So, how can we increase coordination and cooperation to support development on the ground in pursuit of national interests?

Mr. WASHBURNE. Well, that is what this bill proposes to do with this—with our new USDFC established in those—we will send out marketing and interface with those people so they know they have a tool to go out and market with, just like we do at the Commerce

Department today. And our chief development officer that will be—that will be his sole responsibility, is, how do we integrate between USAID and their purposes and with OPIC's or the new DFI's?

Senator MENENDEZ. One final question. Can you tell us how your board currently operates, the value of diverse opinions and expertise it brings? And would you agree that a mix of both finance and private-sector voices, as well as expertise from labor, human rights, and the interagency process, is important?

Mr. WASHBURNE. Yes. We have an excellent board today. When projects go to them, they are thoroughly scrubbed down by them. And I think a diverse opinion is very valuable.

Senator MENENDEZ. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

I know there was some discussion. You good with that? Okay.

Senator Coons.

Senator COONS. Thank you very much, Chairman Corker, Ranking Member Menendez, both for holding this hearing, for the witnesses who are with us here today, and for the opportunity to legislate on an issue that I think is enormously important, about how the United States mobilizes its world-leading mastery of private capital to help the developing world.

I would also like to thank, Mr. Chairman, you, specifically, for your leadership on this, and your staff, Andy Olson, who is been great to work with. My own staff, Tom Mancinelli and Anna Yelverton, have pitched in greatly. And this has been a terrific experience.

I am also grateful for the other cosponsors of this bill, Senators Isakson, Murphy, Young, Shaheen, Portman, and Kaine. President Trump, as has been remarked, signaled his strong support for the BUILD Act, from his statements in Vietnam about development finance reform to references in the National Security Strategy.

I also want to thank two former OPIC CEOs, Elizabeth Littlefield and Rob Mosbacher, for their support. And, Mr. Chairman, I would like to submit a letter from Ms. Littlefield to the—to our committee, for the record.

[The information referred to above can be found at the end of this document.]

Senator COONS. Mr. Washburne, I have greatly enjoyed getting to know you, working with you, and look forward to working together to implement this legislation.

Ms. Littlefield, a former OPIC CEO, in her letter encourages members to support the BUILD Act, saying the legislation, and I quote, "is the right step at the right time. It will advance America's national security aims, it will tap into the dynamism of America's companies and investors, it will project the best of America's values and accomplish all these in an efficient, cost-effective, and time-tested way," close quote. I agree. And I am optimistic that this important bill will move forward with broad bipartisan support.

Last, I am grateful to the ONE Campaign, the U.S. Global Leadership Coalition, and the U.S. Chamber for everything they have done to help make this ready to move.

Just in quick summary, it is because of the ways in which this will change the scope, the tools that you have available to you, and that the successor U.S. International Development Finance Cor-

poration will have accessible to it in order to face the competition that we see in the developing world. In my 8 years in the Senate, in a number of trips to the developing world, our competitors—the Chinese, principally, but many others—are everywhere with far more sophisticated and broad tools. So, I hope that we can work together to address concerns raised today and to make sure that this moves quickly through this committee.

Thank you for a chance to make a statement. And, Mr. Washburne, it is been a delight to work with you, and with you, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

Senator Gardner.

Senator GARDNER. Thank you, Mr. Chairman.

Mr. Washburne, welcome to the committee. Thank you for your service. I will be in Colorado Springs tomorrow.

Mr. WASHBURNE. Okay.

Senator GARDNER. So, I do not know when the last time you were able to make it out there, but I look forward to being out there.

Mr. WASHBURNE. I will be there in June.

Senator GARDNER. Very good. Thank you.

Talking about some of the work that we have been doing in Asia, I know you and I have had an opportunity in the past to talk a little bit about this. Obviously, an important hearing to talk about how we can be expanding opportunities around the globe. The world's largest armies stand in Asia, five of seven U.S. defense treaty allies are in Asia. We cannot simply let China go unchallenged as—in terms of the tools of economic coercion that they continue to use and threaten U.S. national economic interests. According to projections, by 2030, 66 percent of the global middle-class population will be in Asia, 99 percent of middle-class consumption will be in Asia. It is a region very much to determine our future.

Therefore, I wanted to talk a little bit about the bill that I have introduced recently, bipartisan legislation, along with Senator Markey, Senator Cardin, Senator Rubio, and I. The Asia Reassurance Initiative Act, S. 2736, introduced 2 weeks ago, calls on the administration to engage in, one, multilateral, bilateral, or regional trade agreements that increase U.S. employment and expand the economy; formal—two, formal economic dialogues that include concrete outcomes; three, high-standard bilateral investment treaties between the United States and nations in the Indo-Pacific region; four, negotiations of the Trade and Services Agreement and Environmental Goods Agreement that include several major Asian economies; five, the proactive strategic and continuing high-level use of the Asia-Pacific Economic Cooperation Forum, the East Asia Summit, and the Group of 20 to pursue U.S. economic objectives in the Indo-Pacific region.

ARIA also provides an authorization for a more robust U.S. commercial presence throughout the Indo-Pacific to improve U.S. exports, to promote U.S. exports, additional trade facilitation efforts, authorizes the imposition of penalties on entities and governments engaged in the theft of U.S. intellectual property, and requires a new comprehensive U.S. policy to promote energy exports to the Indo-Pacific.

I give you that summary, Mr. Washburne, to ask you this question. Do you believe that the initiatives, like those I referenced in ARIA, would be a help, a boost to the United States to build a—help build a more robust, long-lasting economic/commercial presence in the Indo-Pacific?

Mr. WASHBURNE. Well, thank you, Senator. I am not familiar with your legislation, but what you just said is—yes, I would be. We—as I stated earlier, we just recently signed an MOU with the Japanese government and the Australians—we are currently working on them with the Indian government—to provide more vehicles for us to invest in throughout that entire region, in all areas. But, it is very important to us, with the Chinese influence in that area, and their Belt and Road Initiative, that OPIC, or the new DFI, would be used as—in that region to find the type investments to the—what you speak to.

Senator GARDNER. Yeah. And when we talk to governments around the region—around the world, quite frankly—that have seen Chinese investments from the government, they talk about the sustainability of those investments, those projects. Could you talk a little bit about whether or not you believe these—China's—China's investments, particularly in Asia, are sustainable in the long run?

Mr. WASHBURNE. Well, what the Chinese are doing is what, in the real estate business, they call "loan to own." And what they are doing in these projects—and they did this in Sri Lanka—they are overloaning on projects, they are bringing their own workers in, and, in fact, leaving them behind afterwards, not even using local workforces. By putting so much leverage on these projects, like they did in Sri Lanka, foreclosing a port that was brand-new built, but it had so much debt on it, there was no way it could service it, and they just took it away. So, they are using too much debt and throwing too much money at these projects to force these countries into submission on giving these key resources up.

I spent a lot of time in Zambia. In the summer, we built an orphanage there. And I will be out there again 2 weeks this summer. And, when you land at the airport there, it is a Chinese terminal. As you are driving into town, it is a new soccer stadium built by the Chinese. It is all over. And this is a small country in the middle of Africa. So, if you can imagine it is happening there, think what it is doing in strategic sea lanes and ports around the world.

Senator GARDNER. Well, thank you. And I think, particularly on this area, a U.S. presence—long-term strategy is incredibly important, and U.S. presence means a lot. And so, if we are going to take an opportunity to benefit and help people learn from sub-par investments that China may be making, or at least the penalties that a country may face as a result of cooperating with what once was a beneficial agreement, then we have to be present. And I think ARIA legislation to provide that reassurance is necessary to our allies.

Thanks, Mr. Washburne, Mr. Chairman.

Mr. WASHBURNE. Thank you.

The CHAIRMAN. Thank you.

Senator Cardin.

Senator CARDIN. First, thank you for your service. I strongly support OPIC's functions. We have many Maryland companies that have benefited by it.

But, I want to drill down a little bit on your efforts in regards to small businesses, minority businesses, and women-owned businesses. OPIC has a goal of producing a certain amount of its business in small businesses. I believe your goal is 30 percent. Could you just go over with me how you are making sure that that goal is achieved, and how you go about determining what businesses qualify for that type of analysis?

Mr. WASHBURNE. Sure. Thank you for the question.

Our initiative that we set up last fall is our—what we call our 2X Women's Initiative. And we are catalyzing a billion dollars of investment to go to—focused on women-owned business. And a specific example would be in Costa Rica. We went in and put a lending vehicle, with Citibank, into a bank in—called the Bank of San Jose in Costa Rica. OPIC put in 50 million, Citibank put in 20, and the local bank put in around 10 to 15 million dollars. Of that, 20 percent is specifically targeted to women-owned businesses. OPIC has never done that before, so we are now doing that throughout our portfolio. And small and medium enterprises, SME lending—as we do this throughout the world, that is how we get loans down to small businesses. This week, we did a loan, $100 million project for another bank in debt focuses in El Salvador and Guatemala. What they do is, they take small, medium enterprise loans, and 20 percent of that is targeted towards——

Senator CARDIN. Can you define for me what a small, a medium-size——

Mr. WASHBURNE. It would be someone who needs a truck to go deliver, you know, bakery goods, because they own a bakery, or—I cannot give you the dollar, because every country is different, but a small and medium-sized business would be—not a GE or somebody, but a smaller—and I can come to you with our exact terms of what an SME loan would be. But, what we do is, we find the local banks, know their customer, they know the lenders, so, by putting the money into those banks, they were able to spread it out organically throughout their—you know, the ecosystem of the banking market that they are in.

Senator CARDIN. And I would appreciate it if you could——

Mr. WASHBURNE. Yes, sir.

Senator CARDIN. —supply that information to us as to how you go about determining—30 percent is a goal. There is no legal requirement, as I understand.

Mr. WASHBURNE. That is correct. And it is extremely high priority. That is why—the first thing I did when I came in was set up the Women's Initiative, to kick that off, because that showed—when I was in—I recently was in India. We are helping the finance a—FinTech, in India, to where women, on their phone—well, any small-business person, will have the ability to borrow money, like $5, on their phone, which, in a country with a very small GDP, is——

Senator CARDIN. So, if you would get us that information—because, as we look to trying to partner with you, there are things that we might be able to do to help you——

Mr. WASHBURNE. Yes, sir.

Senator CARDIN. —in being able to evaluate these types of opportunities in a more aggressive manner.

I want to go into minority businesses, as well, and what you are doing there. The Minority Business Development Agency is slated, I think, for termination under the President's budget. And that is an arm within Commerce. I think the President says that that duplicates the work being done by the Small Business Administration. I want to know what efforts and services you use in order to reach out to minority businesses as part of OPIC's function.

Mr. WASHBURNE. Well, I personally, as president of OPIC, have reached out. I have spoken to many minority groups. I have promoted—75 percent of our business is with small U.S. businesses that go abroad. So, we are out—we actively do market to all commerce.

Senator CARDIN. Seventy-five percent would be the number of——

Mr. WASHBURNE. Companies, yes.

Senator CARDIN. —number of companies. And again, how do you determine that they are small?

Mr. WASHBURNE. I would have to get you the terminology.

Senator CARDIN. Okay. I would be interested how that——

Mr. WASHBURNE. Yeah.

Senator CARDIN. And how many of those are minority businesses?

Mr. WASHBURNE. I would have to get you that number.

Senator CARDIN. Yeah. Okay, if you could get that information——

Mr. WASHBURNE. Yeah.

Senator CARDIN. —to us, I think it would be very helpful.

As you know, during the debate on OPIC, there was a challenge as to whether this is really just for big companies or—who benefits from OPIC. We want to make sure that it is an inclusive operation, giving opportunities for minority businesses, small businesses, to participate. And we have found, in the small-business arena, there are certain programs that we have. We would like to see how well that is coordinated by what OPIC is doing in order to make sure that we really are providing opportunities for diversity in American businesses participating in export.

Mr. WASHBURNE. Okay.

Senator CARDIN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Just a couple of last questions. Is the India project you are referring to the one that the President's counselor, Ivanka Trump, was promoting when she was on the trip?

Mr. WASHBURNE. That Ivanka was on?

Senator MENENDEZ. Yes.

Mr. WASHBURNE. Well—no.

Senator MENENDEZ. That is——

Mr. WASHBURNE. When I was in India and Ivanka was there, we were promoting a—just women's businesses, in general, which she

was not part of. Actually, I did not even speak on a panel with her or anything. She was there marketing her own agenda.

Senator MENENDEZ. And so, the—any loans that you made there are not in connection with that?

Mr. WASHBURNE. Oh, no.

Senator MENENDEZ. No.

Mr. WASHBURNE. No, sir, not at all.

Senator MENENDEZ. Let me ask you this. The BUILD Act very intentionally removes the U.S. nexus requirement——

Mr. WASHBURNE. Right.

Senator MENENDEZ. —that OPIC has exercised for over 30 years. Why do you think that is the way to go?

Mr. WASHBURNE. Well, that is what the committee has decided. The U.S. Chamber of Commerce came out in support of this bill and that provision. And we have got a letter of support, which we are happy to submit to the committee, and—submit it. But——

Senator MENENDEZ. I am asking you, as the——

Mr. WASHBURNE. But, we have——

Senator MENENDEZ. —president of OPIC——

Mr. WASHBURNE. Well, we have a U.S.-company preference on every loan we look at. And everything we look at is—goes through that lens.

Senator MENENDEZ. Yeah, but a preference does not mean you have to have a U.S. nexus, right?

Mr. WASHBURNE. Yes, sir, but that is—correct.

Senator MENENDEZ. That is correct. And you think that is the way to go?

Mr. WASHBURNE. That is how the committee has presented it to us.

Senator MENENDEZ. I did not ask you that.

Mr. WASHBURNE. Well, I think it gives OPIC the ability to have greater flexibility in doing projects.

Senator MENENDEZ. What assurances can you give the Congress that, if this is the law, that you will be financially prudent in entering into deals with non-U.S. companies and potentially state-owned enterprises?

Mr. WASHBURNE. Well, again, we believe that there is going to be preference given to U.S. companies. As far as—the board signs off on projects, so I—all I can say is, it goes through a lens of "America first."

Senator MENENDEZ. That is not the—that is not very reassuring.

Mr. WASHBURNE. Well, Senator, I—the language presented to us, and then it came out of the House and then it is going to come out of your committee, is—that was the language that was in the——

Senator MENENDEZ. Well, my point—the reason to have witnesses is not to tell me what the——

Mr. WASHBURNE. Right.

Senator MENENDEZ. —committee wants. I understand what the Chairman and——

Mr. WASHBURNE. Right.

Senator MENENDEZ. —and the—Senator Coons and others want. The reason to have you here is to gather your expertise. So, my question is—let me repeat it again—how are we going to have an assurance that you are going to be financially prudent in investing

in non-U.S. companies or, you know, state-owned enterprises, which you would be allowed to do under this version of the law?

Mr. WASHBURNE. Sure. Well, look, in OPIC's history, I think the agency's been extremely prudent. It has made a profit for 40 years in a row. And our lens that we go through on loan committees or investment committees is a very stringent process to go through. And so, we have the "American first" lens on everything that we do. I—the assurance I can give you is just my assurance that, you know, this is an American agency, and that is the focus on what we are doing. The U.S. Chamber, again, looked at it and issued a letter in support.

Senator MENENDEZ. Well, I appreciate that the U.S. Chamber, which is about promoting business at the end of the day, has its interests. But, my job here, as a United States Senator, is to promote the national interests of the United States, the national security of the United States, and development policy across the globe that pursues that national interest. That may not be bottom-dollar oriented, which the U.S. Chamber of Commerce does. So, that they have issued an endorsement is fine, but it is not my guiding post to understand whether or not something is good.

So, I am looking forward to getting a better understanding as to how—since you do not have the U.S. nexus anymore, notwithstanding with a lens of "America first," but it is a lens that is not 20/20, because you can invest in foreign entities, you can invest in state-owned enterprises. And when we do that, that changes the dynamics for me about what our focus is.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

If I could, just on that note, I mean, right now, I guess, through USAID, we grant money to various entities around the world. We just give it away, right?

Mr. WASHBURNE. Uh-huh, yes.

The CHAIRMAN. Is that correct? And so, I guess the purpose of this is to try to have a return on investment and to get other enterprises in these countries that are impoverished to flourish by loaning them money based on free-enterprise kinds of standards. Is that correct?

Mr. WASHBURNE. Yes, sir. And, look, our goal is to strengthen these markets through private investment. And if a U.S. Company is not going to go into a market that needs a specific thing, and another——

The CHAIRMAN. Yeah. Well——

Mr. WASHBURNE. —is willing to——

The CHAIRMAN. —if I could, I mean, one of the issues that I think has existed, and certainly been an issue to me, is that, when we have U.S.-centric-only lending, which we want to make sure that our U.S. companies are doing business around the world, no question, as Senator Menendez was just alluding to, but we also want the economies of these countries to flourish; and many of the companies there obviously are not owned by U.S. companies, but we want them to be on their own feet. Is that correct?

Mr. WASHBURNE. That is correct.

The CHAIRMAN. And so, this is a way of leveraging U.S. resources, where we are not giving it away, it is actually returning

back to the taxpayers, but allowing development to take place in a real market-oriented way, versus just granting money away, which is the way our existing programs are, typically, with USAID. Is that correct?

Mr. WASHBURNE. That is correct, sir.

The CHAIRMAN. So, it is another tool that uses the kind of standards that we use in our own country to help these countries flourish.

Mr. WASHBURNE. That is correct.

The CHAIRMAN. Senator Kaine.

Senator KAINE. Mr. Chair, I am going to save my questions for panel two.

The CHAIRMAN. Okay.

Senator MENENDEZ. All right. Chairman, just a comment, in response to your comments about mine.

There are times in which you say "giving it away" is—I am sure when I——

The CHAIRMAN. Right.

Senator MENENDEZ. —when I see—when I—well, I am sure, when I see your methodology, your matrix, whatever, there are important development projects in the world that would not meet the matrix that OPIC puts out. So, there is a balance between that which we do through the private sector——

The CHAIRMAN. Yeah.

Senator MENENDEZ. —and that which we do because we think it is in our national interests. It is not just about giving it away. We never give it away without a purpose, right?

The CHAIRMAN. Sure. No, no question. And I support that, also. My point is, is that what this development organization would be doing under this redefined—certainly, you are going to give preference to U.S. businesses, but it is not unlike what we do every single day with USAID, only, in this particular case, we are asking for repayment and return on investment. So, it is another way of helping these very entities that we are already helping through USAID, that I also support.

Any other questions?

[No response.]

The CHAIRMAN. With that, we appreciate your——

Mr. WASHBURNE. Thank you.

The CHAIRMAN. —leadership. Thank you for being here. And we look forward to continuing to work with you.

Mr. WASHBURNE. Thank you.

The CHAIRMAN. Call the second panel up.

Thank you, Bertie.

Our first witness is Mr. Daniel Runde, Director for the Project on Prosperity and Development at the Center for Strategic and International Studies. He was previously the Director of the Office of Global Development Alliances at USAID. He has also worked with global private foundations and corporations to leverage funds for the development finance partnerships.

Our second witness is Mr. George Ingram, Senior Fellow at the Global Economy and Development at Brookings Institution. He previously served as Principal Deputy Assistant Administrator at

USAID and has an extensive background in public and private sectors on development policy.

We thank you both for being here. And it is likely that I think you will be able to answer some of the questions that were asked just a moment ago. We thank you so much for your previous service for our Nation and what you are doing now.

And, with that, Mr. Runde, if you would just begin. And limit your comments to about 5 minutes. Any written materials, we will be glad to enter into the record.

STATEMENT OF DANIEL RUNDE, WILLIAM A. SCHREYER CHAIR AND DIRECTOR, PROJECT ON PROSPERITY AND DEVELOPMENT, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, WASHINGTON, DC

Mr. RUNDE. Thank you very much. Chairman Corker, Ranking Member Menendez, and distinguished members of the committee, thank you for asking me to testify before you today. It is a privilege and an honor.

I want to recognize the incredible work of dozens of staffers on this committee, HFAC, a number of key congressional offices, the team at OPIC, and at the Trump White House, who have made all this possible. I want to especially single out you, Senator Corker and Senator Coons, for—and your teams—for your leadership on this.

Let me make several key points with my time today. First is that this committee and Congress should approve the BUILD Act, for four reasons:

The first is, the world has changed. The developing world needs more American investment and more private investment, generally.

Two, China is currently filling the void. A new Development Finance Corporation, a DFC, can be part of the answer to the China challenge. Frankly, China is eating our lunch around the world. We cannot change China's policy, but we can have a better offer than China. This new DFC is part of that better offer. We need a new national economic strategy to organize ourselves better, and this new DFC will be a part of that larger strategy.

Third, foreign assistance is still a very necessary component of U.S. development, but foreign aid will not be enough or may not be, at times, the right kind of money to solve every challenge that we are going to encounter. The Young-Shaheen Task Force on Reforming Foreign Assistance talked about foreign assistance as a catalyst and bringing others in, including the private sector.

Fourth, the new DFC can help with a series of national security and foreign policy challenges better than our current set of development finance instruments. Refugees, drug-financed gangs, terrorists, and human trafficking all are challenges that can be partially addressed with projects financed by this new DFC. We have a youth bulge in places such as Africa, the Middle East, and in the northern triangle of Central America, where a possible demographic dividend could turn into a demographic nightmare without enough economic growth and jobs for these young people.

The Overseas Private Investment Corporation is a powerful development agency, but it is in need of a refresh to allow it to fully compete. Our allies want to work with OPIC. But, given some of

its limitations, it is difficult for them to work with us and to work with OPIC.

The current Senate version of the BUILD Act provides several important improvements to OPIC. It makes—allows it to make equity investments, to provide technical assistance, provides a 20-year authorization, and creates a preference for American investors. Let me address, specifically, Senator Menendez's point in this, in that, rather than our climate. This is important in contexts such as Afghanistan, where we need American soft power at work, but it is almost impossible to get an—a credible American investor to go. So, that would be the reason to have a preference. I am happy to talk about that further in the Q&A, Senator.

And let me just make a couple of other points. Having said all this, the bill could benefit from some small improvements that can happen in the normal market process. My suggestions for improvements are related to the more explicit institutional linkages between USAID and the new Development Finance Corporation. When USAID reaches for finance tools, they should understand the breadth of what the new DFC can do. And when the new DFC is thinking about an investment, it needs to understand what AID can do. USAID will still need to work with and support the private sector through host-country regulators across an industry, through Chambers of Commerce, or sometimes with particular companies. For example, AID helps set the table for the kinds of massive investments in the telecom sector in places like Africa or Afghanistan. They do technical assistance, working with regulators to allow for private investments to happen. So, the kinds of things I am describing are setting-the-table kinds of work, not making investments.

Some specific improvements for your consideration for the bill:

First, the Development Credit Authority has been tremendously successful as a part of USAID. The person who runs the Development Credit Authority function needs to know AID. And the best way to ensure this would be to make the new office director dual-hatted as a USAID and DFC employee and making the office director a USAID Senior Foreign Service slot.

Second, the position of chief development officer envisioned at the DFC should also be dual-hatted, accountable to USAID and the DFC. This chief development officer could also be a USAID Senior Foreign Service slot.

Third, I think the new DFC is going to need a small cadre of full-time investment officers overseas. These investment officers should be embedded in USAID missions and should work as part of the USAID mission team.

This is not your grandparents' developing world. It is richer, freer, and has far more agency than it did 40 years ago. If we do not meet the hopes and aspirations of our friends and allies, they will take their business to the Chinese. At the same time, a number of national security challenges require private-sector solutions as part of our response. Rather than look at many developing countries as simply recipients of aid, we must look at them as partners who desire a new relationship built around trade, investment, and economic growth. The BUILD Act, when passed, will help us to respond to all this. And I consider the BUILD Act to have the poten-

tial to be the most important development legislation that will be passed in the next 10 years.

So, thank you for this opportunity to testify before the committee on this important topic. And I look forward to your questions.

[The prepared statement of Mr. Runde follows:]

PREPARED STATEMENT OF DANIEL F. RUNDE

INTRODUCTION

Chairman Corker, Ranking Member Menendez, and distinguished members of the committee, thank you for asking me to testify before you today. It is a privilege and an honor.

I want to recognize the incredible work of dozens of staffers on this committee, HFAC, a number of key congressional offices, the team at OPIC, and at the White House who have made this all possible. I also want to single out Senator Coons and his team for their leadership on this important issue.

Currently, I hold an endowed chair at the Center for Strategic and International Studies (CSIS), researching how we might use American soft power and influence around the world. I served in the Bush Administration at USAID and worked for a time at the World Bank Group after starting my career in investment and commercial banking. I have been working and writing on the issue of development finance for more than 15 years.

I am submitting a series of my reports and articles published by CSIS, Forbes, and Foreign Policy—for the record. Let me make several key points with my time today.

EVOLVED DEVELOPMENT FINANCE AND THE BUILD ACT

My message is: this Committee and Congress should approve the BUILD Act for four reasons:

1) The world has changed. The developing world needs more American investment and more private investment generally.

2) China is currently filling the void created by a lack of funds. A new Development Finance Corporation (DFC) can be part of the answer but it cannot be the full response of the United States to the China challenge. Frankly, China is eating our lunch around the world, especially in Southeast Asia, Africa, and Latin America. China offers quick financing and no questions asked infrastructure projects in these places. We cannot change China's policy, but we can have a better offer than China. This new DFC is part of that better offer.

3) Foreign assistance is still a necessary component of U.S. development, but ODA and aid will not be enough, or the right type of funds. Confronting poverty requires more investment capital. The Addis Ababa Financing for Development Conference of 2015 saw foreign assistance as a "catalyst" and put a greater emphasis on other forms of financing including private financing. The phrase that was adopted was "from billions (in foreign assistance) to trillions (in the form of private investment, taxes collected, local private savings, etc.)." The challenges we face are going to be bigger than the billions that we can mobilize through foreign aid. We need to move from billions to trillions. For example, in 2016, total global ODA amounted to $142.6 billion.[1] However, according to the Asian Development Bank Institute meeting infrastructure investment needs in Asia alone will require $1.7 trillion annually over the next 25 years.[2]

4) The new DFC can help with a series of national security and foreign policy challenges better than the current set of development finance instruments that the United States has at its disposal. Someone once said, "the best social program is a job." Illicit drugs, refugees, drug financed gangs, terrorists, and human trafficking all can be partially addressed with projects by this new DFC. We have a youth bulge in places such as Africa, the Middle East, and the Northern Triangle of Central America, where a possible demographic dividend could turn into a demographic nightmare without enough economic growth and jobs for these young people. These young people could be customers for American goods and services or they could be sources of danger for us and our allies. The key differentiator is meaningful work. In places such as Afghanistan, getting electricity, growing licit agricultural crops, and starting new companies are directly linked to the security of our troops. In many post-conflict situations, having alternatives to being a soldier or a member of a militia is dependent on real economic alternatives. The new DFC will be able to help with these challenges.

The Overseas Private Investment Corporation (OPIC) is a powerful development finance agency, but one that operates with outdated instruments and authorities. OPIC is in need of a refresh to allow it to fully compete in today's world. Our allies, such as Japan and the UK, have DFIs and want to work with OPIC but given OPIC's current limitations it can be difficult to work in a coordinated way with OPIC. The current Senate version of the BUILD Act provides several important improvements to OPIC, allowing the new DFC:

1) To make equity investments,
2) To provide technical assistance,
3) To take smart risk using local currency loans, first loss guarantees, and provision of small grants,
4) To raise the spending cap on the DFC's investments to $60 billion, more than doubling OPIC's current $29 billion funding cap.
5) To provides a 20-year authorization,
6) And to create a preference for American investors, rather than a requirement. This is important in contexts such as Afghanistan where we need American soft power but where it is almost impossible to get credible American investors to go due to security or the absence of legal and regulatory frameworks.

I am encouraged to see that the BUILD Act includes a strong preference for the new DFC to work in lower-income and lower-middle income countries. There will be times where the new DFC should make investments in poorer parts of wealthier emerging markets, but the emphasis should be on poorer, more conflict affected countries.

I was also encouraged by the inclusion of the potential for future enterprise funds which are an underutilized tool of the United States, and a complement to the new Development Finance Corporation. The United States should update enterprise funds to the 21st century and we should use enterprise funds much more often. A future round of enterprise funds should be considered as an important supplement to the new DFC.

RECOMMENDATIONS

Having said all of this, this bill could benefit from some small improvements that can happen in the normal markup process.

My suggestions for improvement are largely related to more explicit institutional linkages, or "jointness" between USAID and the new Development Finance Corporation. Legislation should require regular secondments/rotations among USAID, MCC, the new DFC and perhaps other agencies.

When USAID reaches for finance tools, they should understand the breadth of what the new DFC can do. When the new DFC is thinking about an investment that might lead to reform of a sector like the telecoms, the DFC needs to understand what USAID can do.

The Congress should make explicit that it expects USAID to continue to work on "private sector development"—a central part of USAID's work. USAID will need to continue to work with and support the private sector, with host country regulators, across an industry, through chambers of commerce, or with particular companies. For example, the massive private sector investments in the telecoms sector in Africa and Afghanistan required changes in the rules about how many cell phone companies could operate and under what rules of the game. These changes to the rules of the game were often done by agencies such as USAID. USAID does much of the work to "set the table" to enable investments by DFIs such as OPIC.

Here are some specific additional improvements for your consideration:

First, the Development Credit Authority has been tremendously successful as a part of USAID. The person who runs the DCA function needs to know USAID. The best way to ensure this would be to make the new office director "dual hatted" as a USAID and DFC employee, and by making the office director role a USAID senior foreign service slot.

Second, the position of the Chief Development Officer at the DFC should also be "dual hatted" accountable to USAID and the new DFC. The Chief Development Officer should also be a USAID senior foreign service slot.

Third, I think the new DFC is going to need a small cadre of full time investment officers overseas. There is a reason why DFIs such as CDC in the United Kingdom have their own field staff: they need people on-site who understand development finance. These investment officers should be embedded in USAID missions and should work as part of the USAID mission team.

Fourth, I would also urge the Committee to give the new DFC the capacities to support early stage investments, many entrepreneurs cannot get access to this type of investment which requires higher risk tolerance and more patience.

CONCLUSIONS

This is not your grandparents' developing world—it is richer, freer, and has far more agency than it did 40 years ago. If we do not meet the hopes and aspirations of our friends and allies, they will take their business to the Chinese. At the same time, a number of our national security challenges require private sector solutions as part of our response. Rather than look at many developing countries as simply recipients of aid, we must look at them as emerging or even emerged partners who desire a deeper relationship built around trade, investment, and economic growth. We should not let this moment pass. The BUILD Act, when passed, will be the most important piece of international development legislation in more than a decade.

Thank you for the opportunity to testify before the Committee on this important topic, I look forward to your questions.

Notes

[1] http://www.oecd.org/dac/development-aid-rises-again-in-2016-but-flows-to-poorest-countries-dip.htm

[2] https://www.forbes.com/sites/danielrunde/2017/04/05/we-shouldnt-be-eliminating-opic-we-should-be-putting-it-on-steroids/#1cdcf0173156

The CHAIRMAN. Thank you. Thank you very much.

Mr. Ingram.

STATEMENT OF GEORGE INGRAM, SENIOR FELLOW, GLOBAL ECONOMY AND DEVELOPMENT, BROOKINGS INSTITUTION, WASHINGTON, DC

Mr. INGRAM. Chairman Corker and Senator Menendez, my appreciation for the invitation to testify today. And special thanks to the Chairman and Senator Coons for introducing the BUILD Act, recognizing the importance of strengthening the U.S. economic development toolkit.

Dan has laid out the rationale for a more robust U.S. development finance instrument and the strengths of the BUILD Act, so I will focus on just four ways in which I believe the act could be—the bill could be strengthened.

The development mandate. To your point, Senator Menendez, the bill establishes development as the mission, but without clarity and definition of scope. I think that gap can be filled very easily with a definition of "development" in the bill. And the example I would use, a good model, is the MCC statute, which establishes as the purpose of the MCC to promote economic growth, the elimination of extreme poverty, and strengthen good governance, economic freedom, and investment in people. The Modernizing Foreign Assistance Network, which I co-chair, has shared with committee staff this and other improvements to the development mandate covering accountability, evaluation, learning, and transparency.

And, with respect to transparency, language should be added to the bill to specify that the data must be publicly available, and it must be available on a project-by-project basis, not just on a country basis, as provided by the bill, and that data must be timely, comprehensive, and comparable, as is provided in the Foreign Aid Accountability and Transparency Act, which this committee authored.

Second point, on the IDFC–USAID relationship, a strong and proactive relationship between the two is critical to U.S. achieving its development objectives. The bill seeks to do this through designating the Administrator of USAID as the vice chair of the board, and suggests the position of a chief development officer. I would suggest that that position should be mandated by the bill, and the

duties of that officer should be enumerated as I lay out in my submitted—my statement for the record.

The fact is, legislation can only lay the framework, but not hard wire relations between two agencies. And, while agency coordination has improved in recent years, particularly through such programs as Power Africa, it ultimately comes down to personalities, who is in the right place. And this committee can facilitate the relationship through its advice-and-consent authority to ensure that the appropriate person, someone with extensive development expertise, hopefully at USAID, fills that position.

Third point, the Office of Private Capital and Micro-Enterprise. The bill would move the office to the IDFC. This is unnecessary and a mistake. This relatively small office serves as USAID's center of excellence in technical knowledge for private-sector activities. My written statement illuminates the centrality of private enterprise to USAID's activities. If the office were moved, USAID would simply have to recreate the technical capacity so as to maintain the ability to provide advice and guidance to country missions and other units. In fact, given the importance of the two agencies collaborating on programs and projects, and the role that USAID performs in advancing business-friendly environments, the IDFC needs AID to have this technical expertise.

Finally, on labor, environment, and human rights, the OPIC statute sets out specific mandates in these areas. Today's expectations and sound business practices are even stronger than when these provisions were written into law. Business leaders have come to understand that these are not just nice cosmetic social concerns, that following them can benefit the bottom line. Companies today are adopting comprehensive commitments on sustainability, as reflected by some 7,500 companies issuing sustainability and responsibility reports. In complying with its legislative mandate in this arena and following corporate practice, OPIC utilizes the performance standards on environmental and social sustainability of the International Finance Corporation. A simple and elegant legislative alternative to the multiple legislative provisions is simply to mandate that the IDFC should follow the IFC guidelines.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Ingram follows:]

PREPARED STATEMENT OF GEORGE M. INGRAM

Chairman Corker and Ranking Member Menendez, my appreciation for the invitation to testify today, and to Chairman Corker and Senator Coons for introducing the BUILD Act in recognition of the importance of strengthening the U.S. economic development tool kit.

I am George M. Ingram, senior fellow at the Brookings Institution[1] and co-chair of the Modernizing Foreign Assistance Network (an alliance of individuals and organizations committed to improving the effectiveness of U.S. assistance).

Data speaks volumes as to the importance of building out the nearly 50-year-old Overseas Private Investment Corporation into a new, strong instrument of development finance.

The seminal Better Business Better World[2] asserts that achieving the Global Goals will not just help our planet, it will help our wallets. The report estimates that accomplishing the 17 global Sustainable Development Goals across four economic systems opens market opportunities of $12 trillion, a figure which may double or triple if the full scope of the SDGs is achieved. Aside from trillions in value being at stake, as the report states, "there is also the opportunity to shape a safer, more prosperous world with a more predictable future in which to invest and innovate. There is the chance to rebuild trust between business and wider society."

In 2015, the Overseas Private Investment Corporation (OPIC) held a total portfolio of $20 billion, while its European sister agencies held more than twice that amount ($45 billion).[3] Outstanding balances for the China Exim Bank totaled $378 billion in 2016, and the China Development Bank held $360 billion in international assets. The opportunities are vast, the competition is intense, and the U.S. needs to step up to the challenge.

The BUILD Act addresses that challenge, among other ways, in providing the authority to make equity investments and extend technical assistance; raising the contingency liability to $60 billion; providing a multi-year authorization; and creating strong links between the IDFC and USAID. However, there are ways in which it can be strengthened.

CLEAR DEVELOPMENT MANDATE

The bill establishes development as the mission of the IDFC, but without clarity as to definition or scope. This gap can be filled by a clear definition of, or vision for, development.

A good model is the purpose set forth in the statute establishing the Millennium Challenge Corporation (MCC) to promote "economic growth and the elimination of extreme poverty and strengthen good governance, economic freedom, and investments in people". Today that objective would be updated by inserting "broad-based", "equitable", or "inclusive" before "economic growth".

The Modernizing Foreign Assistance Network has shared this, and other improvements to the development mandate covering accountability, evaluation, learning, and transparency, with the committee in specific line item suggestions. Especially important is that data be publicly available on a project basis, not just by country, and that the data be timely, comprehensive, and comparable, consistent with the Foreign Aid Accountability and Transparency Act (FAATA).

A further guarantee of a strong development mandate is that some private members of the board have backgrounds, not just in business and finance, but relevant development expertise and experience.

IDFC–USAID RELATIONSHIP

A strong and productive relationship between the IDFC and USAID will be a lynchpin to the U.S. achieving development objectives.

USAID has been a pioneer in leveraging the private sector in its development programs. In the past decade and a half, USAID has participated in more than 1,600 public-private-partnerships. Two signature initiatives are Power Africa, which works with 142 private sector partners (including 69 American companies) to build energy capacity in Africa, and Feed the Future, which has leveraged nearly $830 million in private sector capital investment since 2011.

The bill designates the administrator of USAID as the vice-chair of the IDFC board and suggests the position of chief development officer to coordinate with USAID and the MCC.

The position of chief development officer should be mandated, not permissive. The duties of the office should be enumerated beyond "policy and implementation" to, among other responsibilities: coordination of IDFC development policy and technical assistance collaboration with USAID and the MCC; sharing of resources, data, analyses, and evaluations with USAID and the MCC; oversight of the agency's responsibilities for monitoring, evaluation, and transparency; and management of the annual report. The officer should be held responsible, in the statute or committee report, for leading a learning agenda with other agencies and a government-wide development finance strategy, both of which will help solidify IDFC–USAID collaboration and program integration.

A mechanism to build collaboration across agencies that has worked well among the military services is employee secondments, assigning members of one agency to another for periods of one to several years.

The fact is, productive bureaucratic relationships cannot be hardwired through statute. While interagency coordination has improved in recent years through initiatives like Power Africa, it ultimately comes down to personalities—the right people in the right places. The committee can play a role in facilitating the relationship. The committee can use its advice and consent to ensure that an appropriate person, someone with extensive development experience, preferably with USAID, fills the position of chief development officer. It also can exercise its oversight role to review how the relationship is functioning.

DEVELOPMENT CREDIT AUTHORITY

The Development Credit Authority (DCA) is a prime example of the critical relationship between the new IDFC and USAID. DCA extends a guarantee (typically up to 50 percent) to an entity to catalyze its activities so they are more developmental. For example, a DCA guarantee can facilitate a financial institution to be more inclusive in its lending. The legislation would move this program to the new agency.

If DCA is transferred to the IDFC, policymakers should consider that demand for DCA guarantees comes from USAID missions, so USAID country staff are the field operatives for DCA. Further, DCA programs sometimes are linked to a USAID program. For example, 10 DCA guarantees, supporting $530 million in finance, are involved in Power Africa.

The draft legislation appears to move the DCA program to the IDCA, but not any underlying authority. So, with appropriate funding, both USAID and the IDFC could operate guarantee programs. It is not currently contemplated for the IDFC to have field staff, so USAID mission staff would, in essence, have to serve as the field staff for guaranty projects of both. Given the difficulty in breaking down agency siloes, it is essential that both agencies establish appropriate policy and employee inducements to catalyze collaboration.

THE OFFICE OF PRIVATE CAPITAL AND MICROENTERPRISE

The bill would move the Office of Private Capital and Microenterprise to the IDFC. This is unnecessary and a mistake.

This relatively small office serves as USAID's center of excellence and technical knowledge for private sector activities and microenterprise. The centrality of USAID's work with the private sector to its programs has already been noted. If the office were moved, USAID would simply have to recreate the technical capacity so as to maintain the ability to provide advice and guidance to country missions and other operating units. In fact, given the importance of USAID/IDFC collaboration on projects, and the role that USAID performs in advancing business friendly environments, the IDFC needs USAID to have the technical expertise provided by this office.

Furthermore, consider whether microenterprise activities are more naturally aligned with poverty alleviation, therefore more akin to USAID programs, or to development finance. If the latter, how would moving the office impact the USAID microenterprise legislated mandate?

LABOR, ENVIRONMENT, AND HUMAN RIGHTS

The OPIC statute sets out mandates on labor rights, environmental impact, and human rights. Today expectations and sound business practices are even stronger than when these provisions were written.

Business leaders have come to understand that these are not just cosmetic social concerns, that following them can benefit the bottom line. Companies today are adopting comprehensive commitments on sustainability, as reflected by some 7,500 companies issuing sustainability and responsibility reports consistent with global guidelines. As one example, a broad coalition of international companies that operate in Cambodia are calling on the government to honor the rights of workers to organize and to a minimum wage and to cease harassment and criminal charges against union leaders.

In complying with its legislated mandate in this arena and with corporate best practice, OPIC follows the 2012 Performance Standards on Environmental and Social Sustainability of the International Finance Corporation (IFC). A simple and elegant legislative alternative to the multiple provisions in current law and the draft bill is to substitute for those provisions the mandate that "The IDFC shall follow the guidelines set forth in the 2012 IFC Performance Standards on Environmental and Social Sustainability."

RELEVANCE OF ENTERPRISE FUNDS

The bill provides the authority to establish enterprise funds by reference to certain sections of the original authority to create the Polish and Hungarian enterprise funds in the 1991 Support for East European Democracy Act (SEED Act). The intent is to transfer the responsibility for enterprise funds from USAID to the IDFC.

The enterprise fund model was innovative in its time, a creative response to the opportunity to introduce private enterprise into Central and Eastern Europe and the former Soviet Union after the demise of the Iron Curtain. Of the resulting 10 enterprise funds, two were shuttered early and the others, having completed their

original mission, have closed their doors and used the income from selling their portfolio to repay the U.S. Treasury and to finance legacy development functions. Only the Western NIS Fund (in Ukraine and Moldova) retains investment activity for a few more years. Two more recent enterprise funds are operating in Tunisia and Egypt.

Several matters to consider:

The legacy foundations and scholarship funds are grant-type activities currently overseen by USAID that would be irrelevant and a distraction to the new entity, so the relationship should remain with USAID.

The bill continues the practice of a White House-appointed board for enterprise funds. Is this useful? While some board members have possessed the expertise to perform well, the primary qualifications of others were political connections. What is the value of taking 6-to-9 months or so for the White House to appoint the board, another 6-to-9 months or so for the new entity to get up and running, and at best 2-to-3 years before investing begins?

In fact, is specific enterprise fund authority necessary or relevant? As to necessity, the reason for the original statute was to provide authority for USAID to engage in equity investment. The bill already does that in the basic authorities.

As to relevance today, the introduction to a recent USAID evaluation[4] of the enterprise funds suggests the answer:

> "Despite the enormous challenges of the transition from planned to market economy, the former Soviet bloc countries were very different from today's developing countries in several important ways . . . . These (i.e., Soviet bloc) countries did not have, however, a private sector, and in particular, a diversified private financial sector that could support the financial investments needed to transform the economy into a market-based system. This is the gap that the enterprise funds were designed to help to address. They were a solution to a problem in a very specific context."

Today, just a handful of countries lack some private sector and financial markets. Furthermore, unlike when the enterprise fund authority was first established, if analysis of a country's financial markets suggests that equity fund activity is appropriate, why go to the time and trouble of creating a new entity? The first step should be to pursue a market option, such as contracting with an existing fund, a social impact fund, an NGO with experience operating in this arena, or issue a request for a proposal. Only if there is insufficient market interest should the enterprise fund option be exercised.

Further, why use scarce grant assistance money when market finance is available? Since 1987, OPIC has committed $4.1 billion in 62 private equity funds in emerging markets. Those equity funds in turn have invested more than $5.6 billion in more than 570 privately owned and managed companies in 65 countries.

Finally, the bill provides authority for the IDFC to establish enterprise funds through referencing relevant provisions in the SEED Act and adding further provisions.

There are several legislative options on enterprise fund authority.

If it is determined that specific authority is relevant to the IDFC, then pull the relevant provisions from the SEED Act into this bill, thereby creating a clean, clear authority. However, I would recommend removing the provision of a White House appointed board, and making clear in the committee report that the existing legacy operations remain with USAID.

Alternatively, as in the past enterprise funds have been authorized by the Congress, let future Congresses decide whether circumstances justify spending grant assistance to establish an enterprise fund.

CLOSING

In closing, I would suggest that the Committee has three balancing tasks in finalizing this legislation.

- Build a strong development finance agency without diminishing USAID's capability to fulfill its development mission, including on economic growth.
- Establish a clear mandate on the primary mission of development while at the same time providing for a nimble development finance agency.
- Facilitate collaboration and coordination between USAID and the IDFC without one unnecessarily interfering with the functioning of the other while embracing strong accountability mechanisms that have served both OPIC and USAID well.

Chairman Corker and Senator Menendez, I thank you for the opportunity to submit these views in support of the BUILD Act with these workable improvements.

Notes

[1] The views expressed in this statement are solely those of the author and do not reflect the views of other staff members, officers, or Trustees of the Brookings Institution.

[2] Business and Sustainable Development Commission, 2017

[3] Congressional Research Service, OPIC, USAID, and Proposed Development Finance Reorganization.

[4] USAID, Europe and Eurasia Enterprise Fund and Legacy Foundation Final Evaluation Report

The CHAIRMAN. Thank you both very much.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Thank you both for your testimonies. Very worthy.

Mr. Ingram, I listened to your suggested improvements with interest. What are your—I think you have made it pretty clear that the merging of OPIC and AID's developing credit authority will—how do you think that will affect the overall development approach and impact?

Mr. INGRAM. The overall development impact——

Senator MENENDEZ. Approach and impact.

Mr. INGRAM. I think there is a strong case to be made to bring—for the development finance instrument to have all the tools of development finance. And guarantee is that. OPIC has a—USAID has a history of creating new programs—OPIC, TDA—and spinning them off. And I look at the Development Credit Authority as that. But, I think that the opportunities and the—the potential for business in this arena is so vast that—I like the way the bill is written now, in that it moves the DCA over to the IDFC, the new entity, but it does not take that authority away from AID. And, in the end, you could have both agencies engaging in different types of guarantee programs.

Senator MENENDEZ. Now, what are your thoughts on the financial tools that are expanded in this legislation? Is there a need for Congress to legislate more financial risk mitigation transparency in the bill? You did mention the one element of having every project publicly listed. Especially as it relates to the new proposed equity authority and a reboot of enterprise funds.

Mr. INGRAM. The answer is, I think the equity authority is very important. All of OPIC's European sisters have the equity authority. I sit on a board of an organization that set up an equity fund, and it had to go to the European DFIs to get the financing. It could not go to OPIC. OPIC only came in at the end with debt finance. So, OPIC was not competitive with its Europeans. And I think OPIC's existing risk mitigation processes will serve the equity just as well as it serves the financing today.

Senator MENENDEZ. Okay. And last question for you. Is OPIC, and potentially the new development corporation, working in the right countries? What is your opinion to access to markets in highly development countries versus the current proposed target countries that appear to be more middle-income?

Mr. INGRAM. I think the legislation is correctly written today, which it emphasizes, gives priority to poor, developing, transitioning countries, but allows OPIC to operate in all developing countries. Because I think there will be opportunities in more advanced developing countries where it is appropriate for OPIC to be active.

Senator MENENDEZ. And, Mr. Runde, in your testimony, you emphasize how this is not our grandparents' development financial institution. And I get that. Can you provide specifics on how we can update the enterprise fund mechanism? In my experience, these funds have largely been signs of political support for market reforms in countries coming out of conflict, but the development and economic results of these funds have been very limited. Can you speak to that?

Mr. RUNDE. Yes. I think that the enterprise funds, as they were imagined 25 years ago, were ahead of their time, but they were very important. There were a number of enterprise funds in eastern Europe that were very successful. Poland, for example, and others. Actually, they were—when they were set up, did—that no one imagined that they would return a financial return. That was not the idea what they were supposed to do. But, I think it is a little bit of a function if we want to make a full market return or we want to make specific development outcomes as our priority with the enterprise funds. But, I do think they are an important complement to what this new DFC can do. And in my written testimony, I reference the fact that I think that finding new generation of enterprise funds would be important.

I think—several things we might do. I do think it is important to have—name somebody as a—an activist board chair. I think we should keep that. That was one of the innovations and, in many instances, that has been successful. There were a few that it was not. And I think we need to learn from our mistakes. But then, second, I think that we ought to be able to bring in other forms of—other private capital and other investors. Originally, as they were envisioned, it was only U.S. Government money that could be brought to the table. So, I think those would be two things that I would think about. One is to keep the—having a board that is brought in from the outside. I would keep that. But, I would allow them to raise capital from other sources, as well, and bring them in.

Senator MENENDEZ. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Kaine.

Senator KAINE. Thank you, Mr. Chair.

And thanks, to your—the witnesses for being here today.

I want to ask about fragile states and combating violent extremism, and how a more comprehensive financial tool, development strategy, can help us with that. Our Chair had David Cameron here a few months back, and he talked about work he is doing on fragile states, and the need to invest more in them to deal with some of these national security issues. I had a briefing 2 days ago about the deaths of American soldiers in Niger, which was very troubling. And this is in a part of Africa where we have had a lot of requests for more U.S. investment and involvement.

Two years ago, I think, in the NDAA process in the Armed Services Committee, AFRICOM came to us, and they asked for the ability to transfer monies. If they felt like the best way to counter violent extremism was to do development projects, they asked for the ability to transfer monies with the SECDEF signoff over to USAID and State. So, they also believe the power of development in com-

bating violent extremism. The fact that they had to ask us, though, suggested that we maybe were putting our dollars in the wrong places. And I am very troubled about an administration that is proposing significant reduction to development funding.

But, talk a little bit about if we do development right, and especially if we attract private investment the right way, how that can be beneficial as we try to help fragile states and counter violence in those nations.

Mr. RUNDE. Thank you very much, Senator. And I want to also thank you for all your leadership in the northern triangle. Thank you for all you are doing on that important region for the United States.

I think the most important social program is a job. And I think, in some ways, some of the most important things we can do to make ourselves secure is to have broadbased economic growth in some of the world's toughest places. And so, I think a new Development Finance Corporation should be willing and able to lean in and make investments, not making a full market return, but a mixture of investments, technical assistance, working with AID to create an enabling environment for jobs so that people feel they have got a shot at life where they are living.

And so, I mean, young people are going to use their energy in either good ways or bad ways, and we want to channel this large youth bulge in places like Africa, where we are going to have a doubling or tripling of the population—we have a youth bulge in Central America and a youth bulge in the Middle East—young people are going to use their energies either for good or for not so good. And so, I think we want to be using the new DFC, in partnership with AID, to try and create the opportunities for these young people to live the lives that they—that God wanted them to live, and have a—you know, use their God-given talents in ways that make sense.

So, I think it is very, very important. We have—I—when I talk to military officers—General Kelly, I think, really understands this in the administration, so I think there is a—I think Mark Green, Ambassador Green, really understands this—so I think you have folks in the White House, you have folks in the development side of the House and in the military who understand this. So, I think, in partnering with the Senate and with the Congress, I think we could find our way to do yet more in fragile states along those lines.

Senator KAINE. Can I ask you this? Since you are not currently part of the administration, so you do not have to give us a party line, how do you square that, that there are people who seem to understand that, with these budgets that come over to us that suggest we want to cut these priorities? Is it just a——

Mr. RUNDE. Well, thanks.

Senator KAINE. —just a——

Mr. RUNDE. Yeah, I was in the——

Senator KAINE. —big tug-of-war between the people who know stuff and those who do not? Or——

Mr. RUNDE. I am a Republican.

Senator KAINE. Yeah.

Mr. RUNDE. I was in the Bush administration.

Senator KAINE. Yeah.

Mr. RUNDE. But, I would say half of my job at CSS right now is trying to stop stupid things from happening. And I think cutting the budget by 30 percent is a bad idea. I think it is a mistake. And I think that the Congress, in its wisdom, has had a different view. And so, I think—but, I think there is plenty of smart folks, and I think they are just—we are having to balance a number of different positions in—in any administration, there is different viewpoints. And so, I think the Congress has an important role to help have a dialogue with the administration. I think there are many reasonable folks.

I also think—the other thing I would say is, as the administration has come online, they have had conversions, sort of "Road to Damascus" conversions on a number of different issues. If you just look at this conversation that we are having, the first budget that they put out said, "We are going to zero out OPIC." That was a terribly stupid idea. And I wrote an article, said, "We should not be eliminating OPIC, we should be putting it on steroids," among many of the other things I will be submitting for the record. And so, I am pleased to see that they are putting it on steroids.

So, I think some of it is about having a dialogue with Senators here, and staff, to say, "Let us not do stupid things." And I also think, to make sure that we understand our security interests and that this is enlightened self-interest. And the administration, over time, has under—has seen that. And actually, I think the National Security Strategy they put out was an excellent National Security Strategy. So, I give—we need to work with them and partner with them and have a dialogue.

Senator KAINE. Mr. Chair, could I have Mr. Ingram—if you have additional thoughts, Mr. Ingram, on this national security interlink with appropriate development, including private development—if I could have him—extend my time?

The CHAIRMAN. I am glad to have it. I have enjoyed this.

[Laughter.]

Mr. INGRAM. Thank you, Senator Kaine.

I was going to start just the way Dan started: jobs, jobs, jobs. And what I would add is: A couple of years ago, I looked at USAID's 1600 public-private partnerships that it had supported over the prior decade and a half. And, at the end of all this, I said, "I wonder if any of them are in fragile states." And what I found was that a quarter of them were in fragile states. My skeptical colleagues said, "Well, it is all in natural resource extraction." I looked at that. It was not. It was in home products. It was in technology.

And to go to Senator—to skip from here to Senator Menendez's point on the U.S. nexus, you have made the point for why we need to soften the U.S. nexus. Because, in some of those fragile countries, there will not always be an American company there that you—that offers the opportunity to create the jobs, to promote the development. And OPIC's European sisters do not have a national nexus. And just as Senator Corker, the Chairman, is trying to provide more flexibility in U.S. food-aid programs, from always having to buy U.S. products, and all development agencies have moved away from "buy national," we need to do that in the development

finance area. And I think this legislation does it in a very smart way of saying there is a preference for U.S. companies, but it does not always have to be a U.S. Company.

Mr. RUNDE. May I? Let me just add to what George has just said. On this issue of preference, I think it is very, very important. I think we should always prefer to work with an American company. And I think we might even have some limitations as to how much ought to be non-American. But, there are going to be instances—if we are going to go down-market, we are going to go to the toughest places in the world—Niger or the Sahel, or we are going to go Afghanistan—most American companies are not going to go there, or they are going to have—we are—or they are—we are going to have to prove to them that there are opportunities. And sometimes it is going to be working with a local company or it is going to be working with a European company or a South African company. So, I think there are going to be instances where this new DFC needs the ability to do that in these toughest places. We want to go to the poorest places. We need to give them a little bit more flexibility.

Senator KAINE. Thank you, Mr. Chair.

The CHAIRMAN. Mr. Runde, we were—Senator Menendez and I were commenting at—obviously, you are not lobbying for a job within the administration.

[Laughter.]

The CHAIRMAN. And so——

Mr. RUNDE. I am working on my subtlety and nuance, Senator.

[Laughter.]

The CHAIRMAN. Well, you are providing a lot of entertainment, and we appreciate it.

[Laughter.]

Senator MENENDEZ. But, we think it is extraordinarily refreshing, Mr. Chairman.

The CHAIRMAN. So, you have had some concerns about the development budgets in the past, in just foreign aid budgets. It would appear to me that those initial budgets coming in were possibly an attempt to show that you were trying to cut government spending because you were unwilling to deal with the entitlement piece. And yet, if you look at what we have actually done, we have not cut those budgets, have we? And so, I think there has been an evolution here, and I know that, while many—some of the members here have been critical of the administration in that regard, it does seem as if this is a very enlightened approach. Is it?

Mr. RUNDE. Senator, I think that the administration is willing to have a dialogue and to have a conversation about these issues. And I think it has been learning on the job in a constructive way, if I can say that. And so, I think this is an example—this topic is an example of that. And so, I do not think we can balance the American national budget on the back of the 150 account, which is the account for——

The CHAIRMAN. Right.

Mr. RUNDE. —foreign assistance. It is too teeny. And it is a part—we need it. And if we talk to our military leaders and our diplomats, they say we need it.

The CHAIRMAN. Yeah.

Mr. RUNDE. We cannot just use foreign aid, alone. I pay my mortgage. I am paying, you know, on about—typical foreign assistance—we need foreign assistance, and it is an important part, but we need this additional set of tools, because the world has changed. And so, I think the administration understands that, and I am so pleased that the two of you gentlemen are convening this meeting today to have this conversation.

The CHAIRMAN. And so, as we look at this—but, you know, I know there is always skepticism. I understand the world we live in. If the administration happens to support something, then—in this environment, it can create some skepticism. Let us be honest. But, what you would say, as someone who apparently has had concerns with the administration in some of the things that may have been put forth, this is something that you think is a huge step forward for our Nation, has nothing to do with partisan politics. This is actually something we should have done years ago.

Mr. RUNDE. I think this is one of the things—keeps me in the business. This legislation keeps me in the business. I think the bipartisan nature of this—this is about the changed world. If you care about international development, you care about poor people, if you look at the Addis Ababa Financing for Development Conference of 2015—if you have trouble sleeping at night, you can read the communique of the Addis Ababa—but, truly, what it said is that foreign assistance is a catalyst, that we need to bring in other—we need to move from billions to trillions. We are going to need to finance $1.7 trillion a year of infrastructure in Asia every year. We are not—there is not enough foreign aid in the world. We still need foreign aid. And we need AID. But, we need this new DFC and AID to work together.

And so, I know that we are in a particularly partisan moment, but I would just, respectfully, for the record, say that this has been a truly bipartisan exercise. I have been so encouraged by the work of you, Senator Corker, and Senator Coons and their staffs. People have worked tirelessly across the political spectrum on this. I have been particularly gratified by the way the Trump administration—the Trump administration staff has been great on this.

And so, I know there is distrust and there is tension. But, I just way to say, this has been a very important bill, and I think the current version that you have in front of your committee is an excellent bill. And I—you know, I have worked on these issues for 7 years full time. Like I said, if you have trouble sleeping at night, I have written several papers on this topic, as well, myself. So——

The CHAIRMAN. I think your oral presentations are probably more enlivened. But——

[Laughter.]

Mr. RUNDE. Yeah. So——

The CHAIRMAN. Mr.——

Mr. RUNDE. —less soporific. But, yes.

The CHAIRMAN. Mr. Ingram.

Mr. RUNDE. But, look—anyways, I will stop there.

The CHAIRMAN. Okay.

Mr. Ingram, what is your view of the administration evolving to a place where this type of legislation would be supported?

Mr. INGRAM. The answer is, I am very pleased to the—see the administration change its position and recognize the importance of development finance. I think we—as Dan says, grant assistance is very important in promoting development, but it is—in this day, it is in a static stage at a time when private finance is growing. And the U.S. needs a stronger tool to be able to engage that private finance with those companies, and to help edge them into activities that have a stronger development impact.

The CHAIRMAN. Do you have any other——

Senator MENENDEZ. Yeah, just a comment, Mr. Chairman, since we are having fun.

So, first of all, let me say that, with all the remarks about partisanship, I am proud that the—this committee overwhelmingly, for the most part, works in a very bipartisan manner. Some of us have very deeply held views about development assistance in the world, and how it promotes it. So, we are just trying to reconcile that with a new paradigm. And I do not think that should be seen as partisan.

As it relates to the administration's budgets and their attempts to cut, I just find it interesting that some of us consider a $2 trillion tax bill, unpaid for, largely focused on corporations as an entitlement, as well. So, it is just—I guess, depends how you look at the world.

So, thank you, Mr. Chairman, for that opportunity.

The CHAIRMAN. Would you guys like to——

[Laughter.]

Mr. INGRAM. I would not disagree with Senator Menendez. I would not disagree with him at all.

Mr. RUNDE. I am generally very talkative, but I have nothing to add.

[Laughter.]

The CHAIRMAN. Do you have any other comments?

Listen, thank you both very much for being here. you are both former USAID employees and leaders. My guess is, you come from different sides of the aisle.

Mr. INGRAM. We do.

The CHAIRMAN. And it appears to me that both of you, with some changes, I know, strongly, strongly endorse this ability—the ability that this bill provides to help us really move into the 21st century as it relates to helping people in poverty not be in poverty. Is that correct?

Mr. INGRAM. That is correct.

Mr. RUNDE. Yes, sir.

Mr. INGRAM. And the other thing I would say, Senator Corker, it is particularly—I love seeing this bipartisanship, because I cut my teeth on the first OPIC reauthorization as a House staffer in 1974, and the Democrats were attacking OPIC. Five years later, when the next reauthorization came up, the Republicans attacked it. And it is really very gratifying to see both parties coming together now and understanding the importance of its activities in the world.

Mr. RUNDE. Let me just add, Senators, that I think, if this—once this bill gets passed—and I hope it does get passed—that I think it could create an icebreaker for other projects that need to be

done. And so, I think this coalition—I think it is going to create momentum, I think, for other things that we need to tackle in this sphere.

The CHAIRMAN. Well, thank you both.

The record will remain open for written questions through the close of business on Monday. If you could—I know you have other jobs, but, to the extent you could answer those fairly promptly, we would appreciate it.

We thank you both for your service to our country.

And, with that, the meeting is adjourned.

[Whereupon, at 11:20 a.m., the hearing was adjourned.]

Additional Material Submitted for the Record

Statements by Habitat for Humanity and Holtec Submitted by Senator Menendez

We build strength, stability, self-reliance and shelter.

Statement for the Record

United States Senate Committee on Foreign Relations
Full Committee Hearing on
"Modernizing Development Finance"

Respectfully submitted by
Habitat for Humanity International

Thursday, May 10th, 2018

Chairman Corker, Ranking Member Menendez, and Members of the Committee, Habitat for Humanity International is grateful for the opportunity to provide written testimony for this hearing on modernizing development finance. Habitat for Humanity International appreciates the opportunity to address the important role that development finance plays in achieving positive development outcomes, and to provide our views on how our successful engagement with the Overseas Private Investment Corporation (OPIC) has effected real change in the lives of over half a million individuals around the world. Habitat supports the proposed International Development Finance Corporation, as outlined in the Better Utilization of Investments Leading to Development Act of 2018. In addition to sharing our experience with development finance and OPIC, we have included below recommendations for the legislation and the proposed development finance institution.

Habitat for Humanity International's vision is a world where everyone has a decent place to live. Anchored by the conviction that stable housing helps families achieve strength, stability and self-reliance, Habitat has helped more than 13.2 million people since 1976 meet their affordable housing needs through home construction, rehabilitation and repairs, and by increasing access to improved shelter through products and services. Habitat also advocates to improve access to decent and affordable shelter and offers a variety of housing support services that enable families with limited means to make needed improvements on their homes as their time and resources allow. As a nonprofit Christian housing organization, Habitat works in local communities across all 50 states in the U.S. and in more than 70 countries.

Habitat approaches housing in a holistic way, including by using finance tools to help create new markets in developing economies that lack housing finance products. We are constantly innovating ways to create opportunities for everyone to find pathways to create their own decent places to live.

We are grateful for the strong partnership we have developed with OPIC. We were delighted OPIC CEO Ray Washburne could meet with our colleagues on the ground in Peru a few weeks ago where we showcased our success at the local level. We are looking forward to further engagement with Mr. Washburne and his team in the future. We also appreciated that Ms. Ivanka Trump took the time during her stay in Lima, Peru to meet our colleagues and learn more about the impact that Habitat's partnership with OPIC is having on the lives of women.

Office of Government Relations and Advocacy | 1424 K St. NW, Suite 600, Washington, DC 20005 (202) 239-4411

The Importance of Impact Investing

Habitat believes modern development finance can achieve a double bottom line – creating profit, and ensuring positive social impact for individuals, families and communities globally. Our belief in impact investing has resulted in the creation of investments that build inclusive economies and expand participation of low-income people as economically productive citizens. The goal is to generate social impact alongside financial return, and can be achieved in both emerging and developed markets. Globally, there is growing interest in impact investing, in light of the increasing complexity of some of the world's most pressing challenges including renewable energy, access to water and sanitation services, and creating decent and affordable housing. We believe modern development finance can work to achieve this double bottom line by focusing on products that engage beneficiaries and create market opportunity for self-sufficiency and financial independence.

Habitat for Humanity International's MicroBuild Fund is the first housing-specific microfinance investment vehicle dedicated to helping low-income families. It is a demonstration fund to prove the financial viability and social impact of housing microfinance, and to inspire further investment by commercial investors. To date, we have served more than half a million individuals through our loans, creating new opportunities for families to achieve stability and self-sufficiency through improved housing. Further, we have seen good financial returns over the life of the fund and are well within the parameters of our financial model. In addition to tracking the financial metrics of the fund, we also track social performance indicators, such as the number of women served, percentage of people served from rural settings, and the number of new dollars put toward housing as a result of our investments in microfinance institutions.

The need for Housing Microfinance and Habitat's MicroBuild Fund

Globally, over 1.6 billion people live in inadequate housing, a need that far outstretches the capacity of governments and philanthropy to solve. The role of local markets is critical. While low-income people use available market options to improve their homes, these homes typically are expensive, poor quality, or simply do not serve their needs. Mortgages remain a privilege for the few. Only 20 percent of households in developing countries have access to the formal financial sector. To make ends meet, low-income families depend on informal mechanisms for savings and credit from microfinance institutions – or MFIs. However, most MFIs remain focused on income-generation or small business loans even though practitioners estimate that at least 20 percent of total microfinance loan disbursements are used for housing. While the microfinance movement has provided access to financial services for low-income people, the World Bank's Consultative Group to Assist the Poor reports that microfinance institutions allocate less than 2 percent of their combined $45 billion (USD) lending portfolio toward housing.

Habitat for Humanity International aims to use all available tools to increase access to affordable, safe and decent housing. By understanding this market failure in affordable and effective financial housing products globally, Habitat decided to do something about it. Housing microfinance (HMF) shows promise both as a nimble tool to address substandard housing and as a viable financial product for institutions serving the unbanked. Housing microfinance products support low-income clients with loans for incremental construction, progressive building, and the addition of services including water, sanitation, and energy, serving as the starting point to a more vibrant housing value chain for the poor.

Habitat's research into the housing microfinance sector revealed three key barriers for lenders who want to enter into housing finance: lack of longer-term capital; limited staff capacity for housing product development; and lack of secure tenure. Habitat expects housing finance providers to grow their lending operations, offering a combination of capital and advisory services, which will increase access to affordable housing loans for low-income households.

In 2012, in close coordination with the Overseas Private Investment Corporation, Habitat for Humanity International created the $100 million (USD) MicroBuild Fund. A demonstration of the financial viability and social impact of housing microfinance, MicroBuild addresses an important market need by boosting funding in innovative housing finance and tracking its progress to further influence investment in the sector. The MicroBuild Fund offers longer-term debt to institutions who offer larger size, longer-term housing microfinance products to their clients. In addition to funding, microfinance institutions receive institutional technical assistance to help take the product to scale. Finally, borrowing clients – individuals or families – receive housing support services including construction technical assistance and financial education to ensure the quality of housing structure and improvements.

The below two examples demonstrate the positive impact the MicroBuild Fund has had on both microfinance partners and individual beneficiaries, demonstrating a double bottom line of achieving economic returns and positive social outcomes.

In Cambodia, 10 million people lack access to decent housing. Habitat partnered with local microfinance institution Hattha Kaksekar Limited (HKL) to provide housing microfinance product development services, and capacity support to the institution. MicroBuild has invested $4 million (USD) in HKL for home improvement and housing loans. Since its launch, HKL's housing portfolio has grown to nearly 9 percent of its overall loan portfolio, demonstrating the viability of housing microfinance products. As of December 2017, HKL's housing portfolio had over 8,100 active borrowers, with an outstanding portfolio size of $54.7 million (USD) across all its branches. Habitat's technical and financial support focused on economic and social returns, demonstrating to the sector the viability of housing microfinance products that serve the underserved as they seek to improve their housing.

Access to housing loans for incremental improvements can have a life changing impact on the families we serve. Marlon, from Ocotal, Nicaragua, took a loan from Habitat supported FUNDENUSE, the only microfinance institution providing credit for sewage catchment tanks. Before they received financing, Marlon's family used a latrine and showered with a bucket outdoors. Their loan enabled the family to build a full bathroom with locally made adobe blocks. "Having a new bathroom had a great impact for our daughter," Marlon told us, "Now she is not scared of going to the latrine [when] it is dark." This simple improvement to their home has resulted in increased safety, and dignity, for Marlon's family.

MicroBuild is funded by a $90 million (USD) line of credit provided by Overseas Private Investment Corporation and $10 million (USD) in equity. Habitat owns a majority stake of 51 percent of equity; and other investors include the Omidyar Network, MetLife Foundation, and Triple Jump, which is also MicroBuild's Fund Manager. Habitat has committed 10 percent of the total fund size or $10 million (USD) in technical assistance to investee institutions. Additionally, through the support of its high net-worth donors, Habitat provides guarantees in the form of letters of credit totaling $10 million (USD) to OPIC. As of May 7, 2018, the Fund has approved $113.5 million (USD) to 55 microfinance institutions across 31 countries, and disbursed $95 million (USD) to 49 institutions across 30 countries. MicroBuild aims to lend the remaining capital to institutions by December 31, 2018. The scalability and sustainability of a dedicated housing microfinance product is evident among the MicroBuild investee

institutions - $88 million of investments as of December 2017 has resulted in leveraging an additional $280 million by the MicroBuild institutions from other sources to grow their housing portfolio. The first repayment to OPIC will come due in 2019.

Recommendations for the BUILD Act and the proposed IDFC

Habitat for Humanity International strongly supports the potential of development finance, and we appreciate the bicameral and bipartisan support for the BUILD Act of 2018. From Habitat for Humanity's unique experience working closely with the Overseas Private Investment Corporation, we have developed a list of recommendations for consideration in the development of the International Development Finance Corporation (IDFC). Habitat's technical recommendations are provided here in the spirit of improving the legislation to ensure the future IDFC engages with a diverse set of actors to promote impact investing, with positive outcomes for broad-based development. These recommendations would assist the IDFC in achieving its objective of promoting sustainable growth in the developing world through creative impact investments from a variety of private sector and non-governmental actors.

Focus on Impact Investing

- We urge the IDFC to ensure that their programs, grants and funds focus on **creating impact through investment**, prioritizing investments that seek to **build inclusive economies and expand participation of low-income people as economically productive citizens.**
- Habitat for Humanity's MicroBuild Fund has demonstrated the positive economic and social outcomes impact investments can have, and it is our hope that others can replicate this model in partnership with the proposed IDFC.

Include non-governmental organizations (NGOs) in "private sector" definition

- We feel NGOs and non-profit organizations can have positive development sector impact by creating new financial tools for low-income families. We ask that NGOs have the same level of access to capital and equity from the IDFC as private sector actors do.

Grants for Technical Assistance

- We urge the IDFC to **provide grants to loan recipients as a complement to the credit and equity provided as a means of encouraging essential technical assistance to support market initiatives in developing country contexts.**
- As Habitat has experienced through the MicroBuild Fund, grants for technical assistance are essential to ensure programmatic success. MicroBuild has provided technical support to lending MFIs, as well as provided learning opportunities for micro loan recipients to be educated about their financial opportunities and responsibilities when taking a micro loan from an MFI.

Remove Caps for Innovative Loan Products

- Habitat recommends **removing caps on what can be considered a micro loan** by the IDFC as different sectors have various "micro" loan needs. "Across the board" caps on microloans are restrictive in different markets (finance vs. agriculture vs. housing, for example). Needs in these sectors, and across geographical settings, vary greatly. Housing loans in particular, are unique as they are often longer-term loans which can be at potentially larger amounts.
- Currently, OPIC defines a Small and Medium Enterprise (SME) loan to be greater than $15,000. Habitat has endeavored to scale and expand the microloan housing products through its partner

microfinance institutions in response to increased capacity and demand for these financial products in various countries. However, OPIC's cap of $15,000 has limited the scalability of the MicroBuild Fund and the potential impact of housing microfinance loans in these newly established housing finance sectors.

Make Political Risk Insurance More Accessible to Diverse Actors, Including NGOs

- An NGO trying to demonstrate scale opportunity or the benefits of an impact investment fund (focusing on economic and social outcomes) will not necessarily be making as much of return as a corporation. As a means to encourage investment in developing country contexts with various levels of political instability, we encourage the IDFC to provide **political risk insurance to NGOs at reduced rates.**

Ensure a Development Voice in Leadership and in Consultation

- We encourage leadership of the IDFC to include individuals with both development and finance backgrounds. The board of directors for the MicroBuild Fund is comprised of individuals from a variety of backgrounds, who prioritize creating impact through investment. This diversity and a **focus on development outcomes** have driven MicroBuild to achieve its resounding success both in terms of financial return and in terms of people served.

Habitat for Humanity International believes in the power of development finance to have real impact on the ground, as we have seen through our housing microfinance work globally. We are available to answer questions and provide supporting documents, should they be helpful to this Committee.

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May 9, 2018

Senator Robert Menendez
528 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Menendez:

As you consider the creation of a new development finance corporation, I want to remind you of how important that capacity can be to our national interests. As you know from our years of communicating, Holtec is a telling example of what creative finance can do in challenging investment settings. As I describe below, our company's experience with OPIC in the course of our work in Ukraine over the past 13 years leads me to strongly support the expansion and enhancement of OPIC's charter.

Ukraine has a large commercial nuclear energy generation program. Nuclear power provides over 60% of the Ukraine's energy needs and has become increasingly more critical to the country as its coal-fired plants are reaching retirement and many have fallen under the control of Russian-backed insurgents. Many coal mines that provide the specific grade of coal to the plants also lie in rebel held territory in the east of the country. It would not be an exaggeration to call nuclear energy as indispensable to Ukraine's energy security. With 15 operating nuclear units, Ukraine's nuclear program is among the largest in the world and yet the country has had to rely on the Russian Federation to store its used nuclear fuel. Because the nuclear fuel discharged by the nuclear plants must be stored in specialized facilities, Ukraine lacking one of its own, has been reliant on Russia to accept its used fuel. This dependence has given Russia a strategic chokehold on Ukraine which subtracts from the proud nation's sense of sovereignty perhaps as much as the reliance on the Russian adversary's natural gas for heating Ukrainian homes did. To rectify this situation, Ukraine sought bids from international cask designers in 2003 to build a domestic "central storage facility" for its used nuclear fuel. After two years of international competition, Holtec was declared the winner and a contract between Ukraine's national nuclear company, ENERGOATOM and Holtec, reflecting the urgency of the matter, was signed on the Christmas Day 2005.

Ukraine, unfortunately, could not borrow funds at reasonable rates in the capital markets because of its tenuous finances and the "central storage project" languished for nearly a decade when the Poroshenko administration re-launched it in early 2014. In the meantime, the Russian treasury has been receiving well in excess of 150 million dollars per year in storage fees from Ukraine. The central storage project is intended to would stop Ukraine's financial hemorrhaging and eliminate Ukraine's dependence on Russia in what is known as the "backend of the nuclear

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cycle." It is reckoned that: when commissioned, Ukraine will save some $150 million per year in avoided payments to Russia and create hundreds of jobs to operate its domestic storage facility.

Despite the compelling case for the central storage facility, it would have remained an unrealized dream for the country were it not for the OPIC loan guarantee which made Ukraine's borrowing for the project investment grade. Ukraine has had the good fortune of pro-Western leaders such as Finance Minister Oleksandr Danylyuk, and Energoatom President Yuriy Nedashkovsky, who persevered (successfully) to get OPIC on board. With OPIC's loan guarantee, Bank of America has successfully floated investment grade bonds in 2017 which Ukraine is utilizing to fund the construction of its central storage facility. The facility is expected to become operational in March 2020 at which time Ukraine's strategic dependence on Russia as well as the drain on its treasury to the benefit of Russia will end. Thanks to OPIC, a serious stranglehold on the Ukrainian energy sector by an adversarial and malevolent neighbor is being neutralized. Another arrow in Mr. Putin's quiver to destabilize and dismember the Ukrainian nation is being disabled.

Very truly yours,

HOLTEC INTERNATIONAL

By: _____
Dr. Kris Singh
PRESIDENT & CEO

LETTER FROM THE HON. ELIZABETH L. LITTLEFIELD TO THE SENATE FOREIGN RELATIONS COMMITTEE SUBMITTED BY SENATOR COONS

May 7, 2018

The Honorable Robert Corker
Chairman
Senate Foreign Relations Committee
United States Senate
Washington, D.C. 20510

The Honorable Robert Menendez
Ranking Member
Senate Foreign Relations Committee
United States Senate
Washington, D.C. 20510

Chairman Corker and Ranking Member Menendez:

As former President and CEO of the Overseas Private Investment Corporation (OPIC), I write today to emphatically endorse the proposed creation of a new, standalone development finance institution to advance sustainable economic development and support U.S. foreign policy.

The United States needs such an organization to play the role it can and should play in the global arena. Indeed, it is long overdue.

Twenty years ago, few businesses were willing to invest in low income countries, especially in those sectors that support the human and economic development of those countries. Since then, two profound changes have occurred.

First, OPIC's commercially-driven approach to development has proven that, with appropriate finance and risk mitigation, thriving markets can be prudently tapped in the developing world. In doing so, investments abroad can create jobs and exports at home, and they can help alleviate poverty and create more economically and politically resilient nations abroad. And for 37 years OPIC has financed and insured thousands of these investments while returning money to the Treasury every single year.

Second, the private sector today is proving that successful commercial businesses can be built in sectors like power generation, infrastructure, even health and education - sectors that were once the exclusive domain of concessional finance, aid or government subsidies. The more that responsible private capital can be mobilized to address economic development needs, the more our scarce grant resources can be concentrated on those global challenges that commercial business models cannot address.

American-supported investments that build reliable power, clean water, affordable housing, and that create markets are a tangible, visible and cost-effective tool of US foreign policy. These investments project the best of American leadership and values–entrepreneurship, self-reliance, rule of law and international cooperation. And it is usually our businesses, their partnership and their investment that countries want most from the United States.

Development finance has been a powerful force in serving our national security interests through, for example, rebuilding infrastructure in Iraq, providing small business loans in Egypt or creating employment for women in Afghanistan. On average, roughly one-third of OPIC's portfolio is in conflict-affected nations. As history has shown, poverty prolongs, exacerbates and, in some cases, causes destabilization and conflict. Sustainable, private sector jobs integrated with local and global markets can be a valuable antidote to that threat. They are a force for stability.

In 2008, for example, water shortages across Jordan were so severe that households in the capital had potable water only a few days per week. In response, and with the help of OPIC, a 200-mile-long water pipeline had been constructed and was delivering safe water to residents as well as to the Syrian refugee camps in the north. This, in a nation of paramount strategic importance that is within driving distance of ISIS-held territories.

The case has been made that Congress should expand development finance. I believe there is an equally strong case that it *can* do so—prudently, cost-effectively and with a high degree of confidence in success. Having the tools that businesses need under one roof will be an essential element to assuring the most effective and efficient service delivery to those businesses.

During the years of my tenure at OPIC (2010-2017), the agency invested heavily in building the institutional infrastructure to support a broader role in achieving U.S. development goals. This meant building 21st century financial institution equipped with state-of-the-art risk management systems and other systems necessary for prudent origination, underwriting and management of a large portfolio of emerging market risks. The result is a very strong core that is ready to serve as a foundation for a new, scaled up development finance institution.

Mr. Chairman, in sum, this is the right step at the right time. It will advance America's national security aims. It will tap into the dynamism of America's companies and investors. It will project the best of American values. And it will accomplish all of these in an efficient, cost-effective and time-tested way. I urge you to support this initiative.

Respectfully submitted,

Hon. Elizabeth L. Littlefield
Former President and CEO, Overseas Private Investment Corporation

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S. 2463 BUILD ACT

[This document can be found online at: https://www.congress.gov/115/bills/s2463/BILLS-115s2463is.pdf .]

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