S. HRG. 118–303

BUILD ACT REAUTHORIZATION AND DEVELOPMENT FINANCE CORPORATION OVERSIGHT

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

ONE HUNDRED EIGHTEENTH CONGRESS

FIRST SESSION

OCTOBER 4, 2023

Printed for the use of the Committee on Foreign Relations

Available via http://www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE

55–726 PDF WASHINGTON : 2024

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BUILD ACT REAUTHORIZATION AND DEVELOPMENT FINANCE CORPORATION OVERSIGHT

WEDNESDAY, OCTOBER 4, 2023

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

The committee met, pursuant to notice, at 10:02 a.m., in room 419, Dirksen Senate Office Building, Hon. Benjamin L. Cardin, chairman of the committee, presiding.

Present: Senators Cardin [presiding], Menendez, Shaheen, Coons, Murphy, Kaine, Van Hollen, Risch, Romney, Ricketts, Young, and Hagerty.

OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, U.S. SENATOR FROM MARYLAND

The CHAIRMAN. This hearing of the Senate Foreign Relations committee will come to order. Let me start by making something crystal clear to the international community, to the U.S. foreign policy community, to our nation's allies and adversaries. As this committee moves forward, we will continue our work on behalf of the American people, as we have done for more than two centuries.

The world faces challenges as well as opportunities. This committee, the Senate Foreign Relations Committee, its members and staff, play a critical role in meeting the challenges America faces in national security.

As I accept the chairmanship with great humility, thanks to the support of our members, thanks to the support of Ranking Member Risch, and thanks to our dedicated and hardworking committee staff, we will continue to advance our values and national interests on the global stage.

My priority is simple, to strengthen America's diplomacy, to make sure our diplomats have the tools that they need, and Congress provides the appropriate oversight in carrying out that responsibility. All needs to be done in promoting American values, American values of democracy, anti-corruption, good governance, human rights, transparency. These are the values that give strength to America's foreign policy.

Effective international development is a critical part of this effort. The American approach to entrepreneurism with individuals building businesses that contribute to our shared economy has fueled much of this country's success.

Promoting growth that sustains a middle class and holds government accountable is vital. Over the decades, we have experimented with different ways to make economic diplomacy part of our efforts abroad.

From the Marshall Plan, to loan programs for women in rural areas to purchase cattle, we have different tools in different contexts, but we know that economic development and finance are essential for stable economies, and stable economies lead to stable countries which lead to prosperity and security for all.

Today, I would like to hear about how the Development Finance Corporation, the DFC, is fulfilling its mandate. It was established in 2018 by the *BUILD Act*, which I know many of our colleagues on this committee worked tirelessly to get that done. This is the first hearing the Foreign Relations committee is holding to look at how you are doing and what we need to consider as the authorization comes up for renewal.

Mr. Nathan, I want to welcome you to this very important hearing. From West Africa to the Western Hemisphere, DFC's loans, insurance, and investments make a positive impact on development, on energy and health care, on technology and innovation, on women's empowerment and addressing the climate crisis.

I want to commend the work of the DFC. You have improved energy security with DFC investments in the Kurdistan region of Iraq, you made telecom networks more reliable in the Gambia and Sierra Leone, and you have strengthened conservation efforts through the blue bonds in Ecuador. You are helping secure global solar energy supply chains and investments in India.

Your work harnesses renewable sources, and you do so without forced labor that we have seen in the People's Republic of China. The kinds of investments and development models that the DFC champions are what makes the United States a better partner in comparison to China's debt trap diplomacy efforts.

As we consider the reauthorization, we need to continue to make sure that the United States remains the preferred investment partner. We need to make sure we have the tools to match our allies' capabilities, and that we are good stewards of the taxpayer monies. Here are some of the challenges that we confront that I hope we will have a chance to discuss during this hearing.

We need to talk about the scoring issues with the equity investment program. We need to tackle DFC's maximum contingent liability cap, and we need to figure out how we can expand the eligibility pools where DFC can pursue deals. I also believe we need more transparency on financing deals.

The DFC has been slow to establish accountability measures required by the *BUILD Act*. I specifically refer to the Development Advisory Council, an independent accountability mechanism.

The DFC must diversify more of its funding away from the world's biggest banks, and it must make sure to properly vet micro lenders so we can right any wrongs when loans do not go as planned. I hope you will lay out your proposal to reorganize the DFC. How do you see this improving the DFC's operations and its ability to advance our national security and foreign policy objectives?

Mr. Nathan, I also expect you to address the concerns the committee's heard from DFC labor unions, and how you are going to involve the workforce in your reorganization plans. Finally, I want to underline that I am committed to working with everyone on this committee to develop the BUILD reauthorization and move it forward.

With that, let me turn to our very distinguished ranking member, Senator Risch, with my thanks for his help, as I have assumed the chairmanship.

STATEMENT OF HON. JAMES E. RISCH, U.S. SENATOR FROM IDAHO

Senator RISCH. Well, thank you, Mr. Chairman, and welcome to the chairmanship. You and I have worked together on a number of things in the past and look forward to doing so in the future. For those of us who watch this committee, changes are inevitable on the committee, but we have a process in place for a seamless transition.

There is nothing more nonpartisan and bipartisan than the national interests and the national security of the United States of America. This committee certainly leads us forward in that regard.

Together, we will move that forward, and appreciate working with you, Mr. Chairman. Well, thank you for having this hearing today. It is the United States interest to promote economic freedom, which lifts hundreds of millions of people out of poverty and achieves shared prosperity. It is also in our strategic interest to protect economic freedom from encroachment by authoritarian regimes that seek to undermine free markets.

That is why in 2018, Congress authorized the creation of the Development Finance Corporation, an agency with unique authorities to make development finance more efficient, effective, and impactful.

I am concerned, however, about DFC's ability to balance its dual mandate to advance and protect economic freedom, particularly when this Administration at times seeks to use the DFC to promote its agenda.

At times it appears some people have forgotten that development is even in the name. It comes as no surprise that the Administration and many of my colleagues are eager to put DFC resources to work in specific regions, favorite countries, or hand-picked sectors, but the DFC cannot be everything to everyone all at once.

The DFC can play an important role with many other U.S. Government agencies in an overall strategy of countering China, but the DFC cannot save the world on its own. The DFC mission is market-oriented development. Too many mandates imposed by Congress, or the Administration, will strangle this mission.

Flexibility is key here. The DFC's success depends on its ability to find willing private sector borrowers with good projects in developing countries. The more policy—Congress or the Administration—forces on DFC, the harder it will be for the DFC to find those partners.

Repeated efforts to launch investments in high income countries invite rightful skepticism toward the DFC's commitment to maintaining a development focus. U.S. taxpayers should not be subsidizing rich countries who have the money to pay their own policy priorities. Nowhere is the abandonment of DFC foundational principles more evident than in the energy sector.

Instead of listening to what developing countries want and need, the Administration is pushing a zero carbon mandate that will fail to close the energy gap and will only push, push other countries closer to China and Russia who do not impose those mandates. However, it is—and moreover, it is outrageous that the agency would rely so heavily upon solar energy projects built on the backs of Uyghurs slave labor.

There is no place for slave labor in any DFC supported projects, indeed for anything that the United States touches, including solar supply chains. The United States cannot compromise its values to achieve messaging-related climate objectives.

It must continue to make it clear that forced labor is unacceptable. With that being said, there are plenty of opportunities to enhance the DFC's work to creative legislative fixes. I am eager to hear from the DFC on what it needs to succeed in achieving its mission. Thank you. I yield.

The CHAIRMAN. Thank you, Senator Risch. Thank you for that opening statement. I think you really highlighted one of the issues that I hope will have a chance to get into, how you balance strategic and development goals in missions.

That is really one of the key points, and I appreciate the ranking member raising that in his opening statement. It is now my honor to introduce our witness today. Chief Executive Officer Scott Nathan currently leads the Development Finance Corporation at a critical moment for enhancing U.S. development priorities.

Prior to his leadership of DFC, Mr. Nathan served in the Obama administration, including being the special representative for commercial business affairs at the State Department, where he led a team of Foreign Service Officers and civil servants who focused on protecting U.S. economic interests abroad and advocated on behalf of American exports.

Mr. Nathan also worked in the private sector and served as the board chair of the League of Conservation Voters. Mr. Nathan, I look forward to hearing from you today. Your full statement will be included in a record, without objection. I ask that you try to summarize your comments in approximately 5 minutes so we can be engaged in a conversation the way this committee, I think, performs its hearings most effectively.

Mr. Nathan.

STATEMENT OF SCOTT A. NATHAN, CHIEF EXECUTIVE OFFICER, DEVELOPMENT FINANCE CORPORATION, WASHINGTON, DC

Mr. NATHAN. Chairman Cardin, Ranking Member Risch, and members of the committee, thank you for having me here today to discuss the United States International Development Finance Corporation.

I want to thank Congress, and especially this committee, for its continued support of DFC. It is now almost 4 years since DFC launched, and with reauthorization coming in the next 2 years, I welcome this opportunity to talk about our organization.

With your support, we are continuing to build our capacity to finance the private sector in countries where we work to make developmental and strategic impact. In fiscal year 2022, DFC did more than $7.4 billion in transactions across 138 deals, and in the fiscal year that just concluded a few days ago, we significantly surpassed that total with more than $9 billion in new deals, a record for DFC.

I am proud of our team and encouraged by our results, but I know DFC can do more, even more, as we continue to develop and execute on our strategy. DFC is making a difference through transactions in economic sectors and regions of deep strategic significance to the United States.

In energy across a range of technologies, DFC is helping to provide reliable access to power in countries from Malawi and Nigeria to Ecuador and India. Also in India, we have lent nearly $1 billion in the last 18 months to two projects there that advance the diversification of the solar power manufacturing supply chain away from reliance on the People's Republic of China.

At the same time, with investments in Central and Eastern Europe, DFC is promoting energy security by helping communities become less dependent on Russia to meet their energy needs. DFC prioritizes transactions in high quality infrastructure, providing support for seaports, airports, and railways that connect communities to the opportunities of the global marketplace.

Over the past year, for example, DFC financing supported the modernization of a seaport in Ecuador and an airport in Sierra Leone. DFC is also investing in digital infrastructure, including safe, secure, and open information technology networks.

For example, DFC supported the acquisition by an Australian company of the Pacific Island assets of Digicel, helping to secure high quality, trusted mobile and network services in these important markets.

Similarly, in Africa, we are financing the build out of digital infrastructure with trusted equipment across numerous markets. DFC is also working to secure supply chains for minerals that are vital to U.S. national security. Last month, DFC's Board approved a loan for a graphite mine in Mozambique to help diversify global supply of this important material, this important mineral away from PRC dominance.

DFC is also providing support for the small businesses that are the engines of every free and dynamic marketplace. In Ecuador, Turkey, Ghana, Sri Lanka, and in dozens of other countries, DFC is bolstering the ability of banks and other financial institutions to lend to the small businesses that generate jobs and opportunity.

We look to support entrepreneurship and more open economies wherever we work. Our strategic competitors do not make these kinds of investments; the United States does. Food security is another priority area for DFC, an effort that has become even more urgent as Russia's brutal and illegal war against Ukraine endangers global agricultural supply chains for communities well beyond the region.

Additionally, DFC support for more resilient health systems is helping to prepare vulnerable communities for the next health emergency. In every area where we partner with the private sector, DFC transactions carry U.S. values of openness, respect for local laws and conditions, and high environmental labor and quality standards.

To accomplish this, we continue to enhance our capacity to screen transactions, and monitor and measure our impact. Over our short history, DFC has significantly increased its capacity to do strategic and highly developmental transactions.

We inherited a structure that provided great results, but now, with a broader toolset and a dual mandate, and even higher expectations for what DFC can deliver, we need to be more strategic in our planning and more focused and proactive in our business development.

To improve our effectiveness and efficiency, DFC is engaged in a process of realigning our transaction teams around a set of enduring priority sectors, infrastructure, energy, health, agriculture, and support for small business.

Organizing around sectors will allow DFC to promote greater accountability by optimizing investment planning and resource allocation across our priorities and enable better solutions for our clients.

This process has benefited from extensive input from all parts of our organization, and we have engaged staff through numerous workshops, interviews, town halls, and more than 100 consultations and meetings.

As DFC grows to better fulfill the promise of the *BUILD Act*, we need to make sure we are organized to put the resources Congress has given us to the best use. Our authorization under the *BUILD Act* expires in October of 2025, and DFC has begun planning for reauthorization.

We are eager to share our successes and challenges with Congress in the coming months, and continue ongoing discussions on a range of issues, including maximum contingent liability, fee spending authority, hiring and incentives, country eligibility, and our equity and other tools. We look forward to continuing these discussions with you so the DFC can fulfill the promise of the *BUILD Act*.

Thank you for the support that makes our work possible and for your continued commitment to helping DFC achieve even more. I look forward to your questions.

[The prepared statement of Mr. Nathan follows:]

Prepared Statement of Mr. Scott Nathan

Chairman Cardin, Ranking Member Risch, and Members of the Committee, thank you for having me here today to discuss the United States International Development Finance Corporation.

I want to thank Congress and especially this committee for its continued support of DFC. You have provided DFC with the tools that have allowed us to increase the developmental and strategic impact of our investments in communities around the world.

We are continuing to build our capacity to support the private sector. DFC financing enables reliable access to energy and supports high-quality infrastructure, including safe and secure digital connectivity. We are investing to strengthen health and food systems, while also supporting the small businesses that are vital to generating jobs and opportunity.

We need to show up and offer our partners a choice based on our values and private enterprise, so that they don't feel trapped into accepting too much debt and end up with projects that aren't needed or are of poor quality. In the 4 years since Congress created it, DFC has made great progress in this regard.

In fiscal year 2022, our transaction volume was more than $7.4 billion across 138 deals, and in the fiscal year that just concluded last week, we significantly surpassed that total with more than $9 billion in new deals, a record for DFC. There will be more details on our year-end results soon, but I am proud that DFC's impact continues to grow.

I am encouraged by our results. But I know DFC can do even more as we continue to develop and execute on our strategy, and work more effectively with our partners in the U.S. Government, our Development Finance Institution peers, and the private sector.

DFC is making a difference through transactions in economic sectors and regions of deep strategic significance to the United States. These include a series of investments we are making in the energy sector. Across a range of technologies, DFC is providing reliable access to power in countries from Malawi to Nigeria to Kenya. We have lent nearly one billion dollars over the last 18 months to two projects in India that advance the diversification of solar manufacturing supply chains. At the same time, with investments in Central and Eastern Europe and the Caucasus, DFC is promoting energy security, helping communities become less reliant on Russia to meet their energy needs.

DFC also prioritizes transactions in high quality infrastructure, providing support for seaports, airports, and railways that connect communities to the opportunities of the global marketplace. For example, over the past year, DFC financing supported the modernization of a seaport in Ecuador and an airport in Sierra Leone.

DFC is also investing in 21st century infrastructure, including secure, safe, and open information technology networks. DFC supported Telstra, an Australian company, in its acquisition of certain assets of Digicel, helping to ensure high quality, secure mobile and network services in Papua New Guinea and several Pacific Islands. We are financing the build out of data centers and other digital infrastructure with trusted equipment in Kenya, South Africa, and Ghana, helping to make these markets more attractive destinations for global businesses.

With the growth of new industries in the 21st century, critical infrastructure also includes supply chains for minerals that are vital to U.S. national security and economic competitiveness. Last month, DFC's board approved a loan to Twigg Exploration and Mining Limited for their operations in Mozambique, helping to diversify the global supply chain for graphite, and to develop an additional source for a critical mineral whose supply is currently dominated by the PRC. DFC's efforts complement those underway at the Department of Energy to support a processing facility for graphite in Louisiana.

Earlier this year, we also approved financing for the first major helium production facility in sub-Saharan Africa, introducing modern technology that will help address, in a more efficient and less carbon-intensive way, a global shortage of an element that is critical for medical equipment, defense production, and telecommunications.

In energy, infrastructure, and in every area where we partner with the private sector, DFC's transactions carry U.S. values of openness, respect for local laws and conditions, and high environmental, labor, and quality standards. Supporting high-quality, sustainable projects has been a focus for DFC from our beginning, and we have continued to enhance our capacity to monitor and measure our impact.

DFC is also providing support for the small businesses that are the engines of every free and dynamic marketplace. In Ecuador, Turkey, Ghana, Sri Lanka, and in dozens of other countries, DFC is bolstering the ability of banks to lend to the small businesses that generate jobs and opportunity. Last month, I visited Vietnam, where DFC recently made $400 million in loans to two private banks to support lending to small- and medium-sized businesses. We want to support entrepreneurship and the development of open and vibrant economies wherever we work. Our strategic competitors do not make these kinds of investments. DFC does.

Food security is another priority area for DFC, an effort that has become even more urgent as Russia's brutal and illegal war against Ukraine endangers agricultural supply chains for communities well beyond the region. Two and a half years ago, DFC set a five-year, $1 billion target for transactions in food security. This year, we have already hit and exceeded that target, years ahead of schedule. This work continues, and we are committed for the long term to working with the private sector on improving agricultural yields, increasing incomes for smallholder farmers, and fostering innovation in food distribution networks.

DFC's support for more resilient health systems also promotes the well-being of people and the stability of communities, providing a necessary foundation for the development of a vibrant private sector. Here, DFC has moved from COVID–19 response to pandemic preparedness, broadening the scope of our financial support to include improving the delivery of care. We are also bolstering the capacity of our private sector partners to treat childhood disease and produce vaccines for potential outbreaks.

While we work across the globe, we are focusing our efforts on countries of particular, strategic significance. For example, last year alone, in Ecuador, DFC did more than $1.2 billion in transactions. Our support for Ecuador's private sector includes financing for the country's first on-grid solar power facility, the modernization of port infrastructure, and the expansion of a hospital that provides pediatric and maternal care in the country's capital.

Also in Ecuador, DFC's political risk insurance helped to enable the Galapagos Marine Bond and the largest debt for nature swap in history. This innovative transaction will protect a diverse ecosystem from illegal overfishing and materially reduce the country's outstanding debts, making Ecuador less vulnerable to economic coercion.

Over our short history, DFC has significantly increased its capability to do strategic and highly developmental transactions. We inherited a structure from previous agencies that provided great results, but now, with greater expectations, a broader tool set, and a dual mission explicitly focused on both developmental and foreign policy goals, we need to be more strategic in our planning and more focused and proactive in our business development.

In order to achieve this and improve our effectiveness, and efficiency, DFC is engaged in a process of realigning our transaction teams around a set of enduring priority sectors—infrastructure, energy, health, agriculture, and support for small business—sectors that historically have been the primary areas of activity for DFC and OPIC. Organizing around sectors will allow DFC to promote greater accountability by optimizing investment planning and resource allocation across our priority sectors, scale our structure and capacity in line with our growth, provide our full toolkit of products and sector expertise to solve client problems, and expand career development opportunities for DFC staff.

This process has benefited from extensive input from all parts of our organization, and we have engaged staff through numerous workshops, interviews, town halls, and more than 100 consultations and meetings. As DFC grows to better fulfill the promise of the *BUILD Act*, we need to make sure we are organized to put to best use the resources Congress has given us.

We have also begun planning for and have held initial consultations about renewing our authorization which is scheduled to expire in October of 2025. We are eager to share our successes and challenges with Congress in the coming months. As previously discussed with this committee, current budgetary rules for the scoring of DFC's equity investments limit our ability to make full use of this important tool Congress gave us in the *BUILD Act*. With an equity authority that allows DFC to invest at scale earlier in platforms that focus on energy, infrastructure, critical minerals, and other priority sectors, we can generate greater deal flow, make greater impact, and come closer to meeting the full promise of the *BUILD Act*.

We know there has been a lot of discussion already from this Committee and from others on a range of issues to be considered in a reauthorization discussion, including equity, DFC's maximum contingent liability, fee spending authority, hiring and incentives, and country eligibility.

We look forward to continued discussion with you to maximize our ability to drive the developmental and strategic benefits that Congress envisioned when you created DFC.

In DFC's short history, we have made great progress. Thank you for the support that makes this work possible and for your continued commitment to helping DFC achieve even more. I welcome your questions.

The CHAIRMAN. Thank you, Mr. Nathan, for your service, and for your statement, and for being here today. We will now have 5-minute rounds for members to ask questions.

I want to start on the point to Senator Risch made during his opening statement, and that is how you are balancing the strategic concerns with development objectives. Let me just put this in context.

We all understand that China's Belt and Road Initiative requires us to be strategic in how we use all of our tools, including those at DFC, but the—very clear about it, the *BUILD Act* mandated that development mandates be front and center.

How do you go about balancing the strategic importance of what you are doing with the development opportunities that are out there?

Mr. NATHAN. Thanks for the question. The *BUILD Act* was very clear that we have a dual mandate, and this is a difference from our predecessor agencies, to advance the foreign policy interests of the United States and to make development impact in the poorest countries of the world.

I do not see these two mandates as intention. I think they work very well together. It is through development, through providing economic opportunity, through alleviating poverty, through creating greater stability through economic growth that U.S. foreign policy interests are served.

Stability, economic opportunity, and free enterprise are directly in the United States' interest. That said, we do transactions across a range of sectors. Last year we did over 130 transactions. We did a similar amount the year before.

Every transaction has different elements to it. Some are very explicit in terms of the national security component related to the global competition with our strategic competitors. Others are more related to economic growth.

I maintain that every deal has both development impact and advances the foreign policy interest of the United States.

The CHAIRMAN. I agree with that. I do not think they are inconsistent, but it is helpful for us to have a better understanding as to how you go about making that balanced decisions.

One of the questions we have as we are considering reauthorization, is there any authorities that you currently do not have that would make that process easier for you that we should be considering in the reauthorization bill?

Mr. NATHAN. Yes. I should say on the development impact, we do have a framework that has been refined over time, but it was developed at the beginning of DFC, called our Impact Quotient, which looks at all different factors in terms of giving a development score for every deal.

We also look at the foreign policy impact against the countries' strategies that the State Department promulgates and individual national security components. In terms of things that hold us back, we would like to have a little bit more flexibility on country eligibility.

At the moment, under the *BUILD Act*, country eligibility is determined by income level under the World Bank income classification, and this tool is really blunt in terms of what countries are included and what countries are not.

More flexibility on that will enable us to help the poorest communities in countries that might not meet those income level classifications.

The CHAIRMAN. As you review this, in regards to specific recommendations on—including eligibility, it would be useful if you share that information with our staff so that we can get up to where we need to be as we are considering the reauthorization language.

I want to ask a question in regards to the realignment of DFC programs by sector rather than by for financial product. I am interested as to the input you are receiving from the workforce.

We understand there is a challenge as to whether the deal teams will remain in place or not and what feedback you are receiving from the workforce as you make this change in structure.

Mr. NATHAN. We have engaged in a process throughout the year in terms of refining our strategic priorities and then translating that into an organization that is best aligned to achieve those priorities. This process is ongoing.

As I mentioned in my testimony, we have had over 100 meetings, numerous workshops, town halls, other means for gathering input from the staff in all parts of our organization. It is incredibly important to be able to ground truth the structure that is being developed and make sure that it is as effective and efficient as possible.

That is why, as this process has gone on, we have taken that input and changed elements of it, and that will continue to be the case. The organization, in the 4 years since launching, has more than doubled in size in terms of the employees. The structure that existed previously worked very well for OPIC.

As we grow, we need to make sure that we are able to continue to focus on business development. The key is making sure our deal pipeline is filled with the best transactions to lead to the highest developmental and strategic impact, and having an organization aligned around sectors allows us to better meet client needs, to have consistency in business development, have focus and planning on the goals that we have for what kind of impact we can make in each sector, as opposed to by deal size or product type, which was far more siloed and relied on a smaller team.

As our team grows, I think our current structure would have trouble with efficiency and effectiveness and the realignment process, and the process that is underway is designed to improve that.

The CHAIRMAN. I would be interested in the specific ways that during gauging the workforce as you make these decisions, so there is harmony and understanding and input from the workforce.

Mr. NATHAN. Yes, as I mentioned, we have had over 100 individual meetings. We have had workshops, town halls, interviews, and this process is ongoing.

The CHAIRMAN. Senator Risch.

Senator RISCH. Thank you, Mr. Chairman. First of all, I would like to enter in record, I have written five letters to the agency in recent months, one on solar, one on mission and purpose, two on Zimbabwe, and finally on Brazil, climate matters.

The CHAIRMAN. Without objection.

[EDITOR'S NOTE.—The information referred to above can be found in the "Additional Material Submitted for the Record" section at the end of this hearing.]

Senator RISCH. First of all, I want to thank you, Mr. Nathan. As you know, I put a hold on opening the office in Brazil because it was solely focused on climate, and I wanted a broader aperture than just climate.

You agreed to that. I lifted it, my hold. Thank you very much. Let us talk for a minute about solar. It is common knowledge, of course, that there is slave labor involved in the solar industry through China, and people are concerned about that.

Can you tell us, what sideboards do you have in place to make sure that the United States is not financing projects that entail slave labor?

Mr. NATHAN. Thank you, Senator. I appreciated the dialogue that we have had with both you and your team since I have been in place on this important issue. I absolutely agree that there is no place for slave labor in any supply chain that gets the support of the United States.

Under the *Uyghur Forced Labor Prevention Act*, the Forced Labor Enforcement Task Force was created. While that Act does not bind DFC, we are following the rules that are outlined in that piece of legislation.

The FLETF list of companies that are prohibited is one that is incorporated into our contractual requirements in any solar deal we do, but beyond that, we have a strategy to diversify the solar supply chain away from China.

In the last 18 months, we have made two investments, one to a U.S. company called First Solar that is building and is about to open a solar power manufacturing facility in Tamil Nadu in southern India. This plant will produce cadmium telluride-based technology panels that have no involvement with China in any way.

Recently, our Board approved another transaction of $425 million loan to TP Solar Limited for solar panel manufacturing in India, again, diversifying away from China. This is a strategy that we want to deploy elsewhere and are looking for more opportunities to diversify the solar manufacturing supply chain away from China entirely.

Senator RISCH. I appreciate that. That is a good explanation. I am assuming that you have a team of some kind that knows the industry and the supply chain and can smell these things out of if you have got Uyghur influence, Chinese——

Mr. NATHAN. Absolutely.

Senator RISCH. Thank you very much. I want to talk a little bit about the balancing act that you have, and I understand it is a balancing act. I want to give you an example and let us have a discussion of it so all of us can have a little better understanding.

Suppose you are faced with a situation in a developing country where the developing country has a considerable resource or access to coal, and they want to build a coal plant. Obviously, they will contact you, and certainly they would engage the Russians and the Chinese also. How do you meet that?

Obviously, you are going to say to them, let us—is there another way we can do this other than coal? They say, no, there is not. What do you do? How do you balance that?

Mr. NATHAN. Yes, so we are constantly balancing the probability of a deal getting through, all the different eligibility criteria, statutory criteria we have, the requirement to do social, labor, environmental screening, meeting the IFC performance standards.

We want to be realistic with our partners, not take things down the road, and then at the end of the day, not be able to close on a transaction, but these transactions take time. Some of the transactions that we approved in the last year were initiated in 2019 or 2020. This is also part of the balancing act that we are undergoing.

We look at all of the different factors involved: development, impact, employment, human rights, all of the factors that go into our analysis, and at the end of the day, if we can support projects that generate economic opportunity and have strategic impact, then I feel like we are doing what the *BUILD Act* has intended for us to do.

Senator RISCH. Let me drill down a little deeper. If the scenario I painted for you comes on your desk and it is a coal plant, fired plant, or nothing, and the Chinese are going to build it if we do not, is this a "no" and is that an automatic disqualifier that it is a coal——

Mr. NATHAN. I am sorry, I missed the sector that you are talking about. My understanding is that it is Administration policy agreed with our G7 allies to provide no financing to the coal industry at the moment.

Senator RISCH. In that case, China wind up with the project.

Mr. NATHAN. Yes, although my understanding is that China has also articulated that they will not finance coal projects either, but——

Senator RISCH. Yes, we have all seen how that is working.

Mr. NATHAN. Yes, I understand that. That is why I said, they have articulated.

Senator RISCH. So——

Mr. NATHAN. Yes.

Senator RISCH. Well, my time is up. Thank you.

Mr. NATHAN. Thanks.

The CHAIRMAN. We will now turn to the person who can really tell you about the Congressional intent of the *BUILD Act*, its author, Senator Coons.

Senator COONS. Thank you. Chairman Cardin. Ranking Member Risch, thank you for this hearing. Thank you, Mr. Nathan, thank you, Scott, for your leadership at the DFC.

It has been a long and strange road to the moment we are at right now, the transition from OPIC and its scope and authorities, and risk tolerance, and mission, and where the DFC is today.

I respect the questions and the framing, and also share some concerns about making sure that the restructuring and the transition is oriented towards making the DFC agile, responsive, and engaged in the moment.

I want to focus my engagement with you this morning on equity scoring. One of two things that we did not do I think right up front, we instead gave a couple of years, the total lending cap at $60 billion as opposed to $100, and the way that your equity authority is treated is scored.

Along with Senator Cornyn, earlier this year, I introduced the *Enhancing American Competitiveness Act*, and this is to address how your equity is scored. That bill does not amend the *Fair Credit Reporting Act*, to be clear.

To those who are concerned about it. It would create a scoring mechanism to assess the fair value of equity investments similar to how a loan is scored, and it would allow the DFC with smaller amounts invested to leverage much larger amounts of private capital. At least that is my understanding. I would be very interested in hearing from you.

To what extent has the current scoring of equity served as a constraint on what the DFC is able to do? Are there specific projects you could cite that you have had to forego because of the current scoring?

How would that do in terms of competing with the PRC and the development impact, which I think needs to be at the focus of everything? If we have another few minutes after that, what other key priorities do you have before we get to reauthorization that we have to address in the near term?

Mr. NATHAN. Thanks very much for the question, and of course, for all of your support over the years. To make the equity problem simple, we get a program budget, an appropriation for program funds.

That can be used for equity. That can be used for what is called positive subsidy for debt transactions that require it, and that is often in countries that are in particular—have difficulty at the moment. Ukraine being an example of that.

We also use that subsidy for technical assistance. Technical assistance grants is a tool given to us by the *BUILD Act* that we did not previously have. All of these different tools compete for that pot of subsidy.

Equity at the moment, for every dollar that we invest in equity, is using a dollar of that appropriation as if it is a grant, as if there is no offsetting asset by virtue of making the equity investment. It assumes that every equity investment we make will lose 100 percent. While I do not believe DFC is likely to have the highest record in equity investing, it would be extraordinary to lose 100 percent in every single investment we make.

The Cambridge Associates data on emerging market equity—private equity investments shows on average high single-digit returns over almost any time period you look at and I do not think we are going to be any different than that. This is a real constraint. It means we are constrained by the appropriation.

We do not get the kind of leverage that we do in our lending activity. Last year, of the $7.4 billion of transactions we did, roughly half a billion dollars of that was equity. The rest was debt and political risk insurance on a tiny bit of capital——

Senator COONS. In the minute or two we have left, what difference would it make if we fixed your equity scoring challenge?

Mr. NATHAN. It would enable us to be earlier in investments, to be more influential and have a seat at the table. To provide more risk oriented capital to developers. An example of the kind of thing that I would like to do if we had more is our investment in TechMet, which is a critical mineral investment platform with a strong, pro-U.S. bent to it.

I would love to find other platforms that provide deals in the energy sector, in the infrastructure sector, in the health and agriculture sector. By backing developers earlier, we can influence their choice of vendors, their choice of other investors or co-financiers.

We can influence the direction and also produce potential deal flow for our lending activity. We are currently too constrained to do that. It is hard to build a team also without certainty around how much capital we have to invest.

This is really my highest priority to fix this issue, and I appreciate your attention to it.

Senator COONS. I will just conclude if I could. If I hear you right, one of the core goals of the *BUILD Act* was to strengthen our ability in development finance to partner and syndicate. Some of our key partners: South Korea, Japan, the Nordics, UK, have development finance institutions.

When we only have debt, we are at the end of the process. When we have equity, we are early in the process. We can syndicate better, we can shape deals better, we can get better leverage from our very deep private sector.

Frankly, we are blessed to have two colleagues here today who know a lot more about this field than I ever will. I think we need to fix this and not wait another year or two or three, and the funds that we are appropriating—and you got your full request in the Senate version SFOPs, those dollars will go much farther, and you are a critical resource in our global competition for more transparent, more sustainable development finance.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Ricketts.

Senator RICKETTS. Thank you, Mr. Chairman. Thank you, Mr. Nathan, for being here. I want to hit upon what Ranking Member Risch was talking about with regard to the energy development.

On his first day in office, President Biden enacted an Executive Order, and I am going to quote it here, "to promote ending international financing for carbon intensive fossil fuel-based energy while simultaneously advancing sustainable development and a green recovery."

However, here in the United States, we are attempting to do the same thing. Would you agree that we are trying to move to more renewables?

Mr. NATHAN. In the United States, yes.

Senator RICKETTS. Yes, right. What do you—who do you think is the highest—the State consumes the most renewable energy as a percentage of their overall energy consumption.

What State do you think that is? I just got it from the International Energy Administration's report. I am not expecting you to know that answer, but if you know it, jump in.

Mr. NATHAN. It might be your state is what I——

Senator RICKETTS. Oh, I wish it was Nebraska. It is not actually Nebraska. We are number 11th.

Mr. NATHAN. Okay.

Senator RICKETTS. At about 25 percent. The top State is actually South Dakota at 50 percent. Think about that, 50 percent renewable energy when we really are making a push here. Let me just hit some of the States around the area here. Pennsylvania is 6.1 percent and ranks number 42.

Let us see, again, Maryland is 5.8 percent. It ranks number 44. Virginia is at 7.8 percent, number 38. New Jersey, 4.3 percent, number 47. You can see that even with the push that we have here, many States are single digit percentage of renewable energy.

Yet, you just said you would not finance a coal plant is the—and of course, we also had the instance earlier this year where the Biden administration vetoed a $180 million IDB proposal for debt financing for Guyana shore base infrastructure that would develop their oil and gas resources.

I think 12 out of your current—12 projects out of the current act of 980 are actually in that field of oil and gas or quarrying or mining or stuff like that. It seems to me that if you have developing nations are looking to become energy independent from places like Russia, that you are going to need to help them develop their energy resources, it cannot just be renewable energy because that is not going to be the only thing. Is your policy to only develop renewable energy? Are your projects that you are funding only going to be green energy projects?

Mr. NATHAN. No. I can give some examples. For example, in Sierra Leone, we are financing and have also recently provided additional political risk insurance to a gas-fired power generation plant to a country that has incredibly low electricity penetration to the population. It has no reliable source of electricity at the moment.

This plant will be a development game changer for them in terms of providing reliable electricity. In Eastern Europe, with the energy security issues that you referenced, we have provided support through our political risk insurance and through guarantees to help the purchase of U.S. LNG cargoes in Poland, to provide diversification away from Russian gas in Moldova, and we continue to look at other energy security possibilities like that.

Senator RICKETTS. When I cite that figure of just 12 for the mining, quarrying, oil and gas extraction, are you telling me that you are actually going to be looking to expand that as far as like oil and gas, helping developing countries get more baseload energy to be able to provide that electricity, as well as renewable projects?

Mr. NATHAN. Well, I want to differentiate between oil and gas exploration, which typically, the way that DFC works is we have a requirement to be additional. If there is commercially available financing, we are not looking at the project.

We are not trying to crowd out the private sector, we are trying to crowd in the private sector. Oil and gas development typically is financed at a corporate level, and then the money is pushed down to projects in individual countries. There is not really an opportunity for us to get involved in that.

What I am talking about is provision of power, electricity, reliable heating, being freed from reliance on Russian gas, freed from the reliance on dirty diesel or burning dung and waste product for cooking. These are things that I think DFC has a role in looking at.

Senator RICKETTS. Okay, great. Well, I would love to follow up with you with regard to that, because I do think it is important that we understand that developing nations need to have baseload energy as well as renewable, and that we open the door to Chinese or Russian influence when we do not do that, too.

I think Senator Risch's point earlier, if I—if we can, I have just one more quick question, Mr. Chairman. You also mentioned earlier about trying to find the graphite, I think you said earlier.

Mr. NATHAN. Graphite mine, yes.

Senator RICKETTS. Yes. Are you coordinating with other agencies with regard to those critical minerals to be able to develop, say, batteries technology, or is that coordination with other people to target those?

Mr. NATHAN. Well, thank you for the question, because that is directly on point for the graphite mine in Mozambique. The Department of Energy is financing a processing facility in Louisiana, which will be an off-taker of that mine. Yes, is the answer to your question.

Senator RICKETTS. Okay, great. Thank you very much, Mr. Nathan.

The CHAIRMAN. Thank you. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. In 117th Congress, I introduced an economic statecraft for the *21st Century Act*, which directs a whole-of-government approach to confront China's anti-competitive and predatory international economic policies.

It calls on for the establishment of the Office of Strategic Investments at the DFC to coordinate Federal Government initiatives intended to counter adversaries. What is your view of that?

Mr. NATHAN. Well, we incorporate strategic considerations into every investment that we make. It is a critical component of meeting our dual mandate. Anything to bolster our ability to do that, I am certainly interested in talking about and willing to look at.

Senator MENENDEZ. Yes, I look at it as strategic investments that are focused on dealing with adversaries. During your nomination hearing, we discussed the potential the DFC has to be a vehicle for providing support to our friends and allies who are under increasing economic and diplomatic pressure from Beijing.

I still believe that to be the case. Since the DFC was first authorized 5 years ago, what changes have you seen in China's foreign lending and development practices, and do any of these trends suggest that we should further refine the DFC's authorities?

Mr. NATHAN. What we have seen is some volatility in China's lending practices, some years really pushing out a great deal of capital and other years being far more cautious, because they have lost a lot of money in some of the areas where they have invested, and countries are becoming more aware of the quality problems and the debt burdens that go along with receiving that financing and are becoming more wary.

When I travel, I find a great deal of receptiveness to finding an alternative. People want us to show up and offer a choice, and that is what we are trying to do. These are partners that are traditionally allies of China, allies of Russia, but who are looking to diversify their relationships, and we need to be there for them.

Senator MENENDEZ. Is there anything as a result of that, what you have witnessed, that it requires, in your view, any changing of authorities or additional authorities in order to meet the challenge?

Mr. NATHAN. Well, certainly having an improved equity tool that is no longer constrained by the budgetary treatment would enable us to have a great deal more flexibility. Clearing up some of the issues related to our use of political risk insurance, and full 100 percent guarantees would give us broader tools in that regard.

Being able to operate in a broader set of countries where there is still high development potential, but currently we are constrained by the World Bank income classification levels, would be another one.

Senator MENENDEZ. I appreciate that. Now, economic development is critical to addressing challenging issues throughout the Western Hemisphere. The region is experiencing an unprecedented growth in migration due to civil unrest, deterioration of the rule of law, a corresponding lack of economic opportunity.

Solving our challenges at the border, we have 20 million people in the Southern hemisphere who are displaced from their native countries seeking refuge or asylum. They are presently in other countries.

If we fail to meet that challenge, we will have 20 million feet marching North to the United States, and our challenges at the border will be minor now compared to what that would mean.

In thinking about how we deal with this, I put out a plan and I recommended the establishment of an enterprise fund managed by the DFC to increase investment in companies across the Americas that hire a significant number of those individuals in their countries.

How can the DFC work with other institutions to support economic development throughout the Americas for those countries hosting significant numbers of migrants and refugees?

Mr. NATHAN. We are looking—we are always looking for partners, partners who can increase the available pool of financing or who can share deal flow.

That could be the Inter-American Development Bank, who we are engaged in discussions with right now in this regard, more local development banks, and especially the private sector.

We have done, in the last year, deals with financial institutions in Honduras and El Salvador—totally directed at what you are talking about providing jobs, economic opportunity, and growth in order to keep people in place and not have an economic necessity of leaving their home.

Senator MENENDEZ. Yes. I commend your attention to the concept of this Enterprise Fund as a way to further out and achieve that goal. It is in our national interest, and it creates greater stability in our hemisphere. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Hagerty.

Senator HAGERTY. Thank you, Mr. Chairman. Welcome back.

Mr. NATHAN. Thank you.

Senator HAGERTY. Scott, is good to see you. I would like to acknowledge Senator Coons and my friend Senator Corker, who had a great deal to do with the *BUILD Act* that has empowered what you are doing.

One of the things that struck me when my colleagues put this together was its ability to counter China. I think the CCP has been top of mind for us in many respects. They championed the ability of this—to strengthen our hand versus China. I want to focus on that in my conversation with you today.

Our balance sheet relative to China is very small. China has invested roughly $1 trillion in 147 different countries in their Belt and Road Initiative. You have a $60 billion balance sheet. What I would like to talk with you about is how you focus those relatively small resources.

You and I have talked about my concerns over ESG oriented investments, those types of things, which while perhaps laudable, do not get at what our critical strategic priorities happen to be. I would like to get your thoughts on how we deal with the fact that you have a small sheet—how we focus our investments.

You have talked about, Mr. Nathan, investments in solar panels and things of this nature. I am much more interested in potential dual-use infrastructures like ports, rail, air, those types of investments, what we know the CCP is focused, and where our presence can be extraordinarily valuable in terms of countering them.

I want to highlight that and get your thoughts on that, as well as one other thought, and this is the fact that you have the ability to hire an outstanding team. Former OPIC, the DFC is known for having really, really great professionals, and how do you punch above your weight when you have a small balance sheet?

My thought would be hiring the absolute best professionals you can get. You can lead investments even with a small equity component, as Senator Coons was saying. You can put yourself in front with the best talent and we can help free up your equity a little bit more, which Senator Coons and I have talked about this.

I am all in favor of doing that, but can you talk to us a bit about focus and talent.

Mr. NATHAN. Thank you for the questions, and thanks for the dialogue we have had over the last year. First, on the question related to strategic investments, I am really proud of what we have done in the last year.

We are going to report our results later this week, but it will include investments in the modernization of a seaport on the Pacific in Ecuador. It will include more than $500 million going to the modernization of a port in Sri Lanka, a port in Colombo, where the container terminal we are supporting looks directly at the container terminal that the Chinese are supporting.

This is done in concert with the Development Bank of India. They have a very strong interest in seeing shipping in that area be free and unencumbered by coercion. Similarly, we expanded our financial support for a port on the Black Sea in Georgia, where because of the conflict in Ukraine and Russia's aggression, this has become more important than ever.

We did the financing of an airport expansion in Sierra Leone, which will have huge impact on this very poor country and my staff are concerned——

Senator HAGERTY. All laudable. I commend that direction. I would be interested in what percentage of your total investments these types of dual-use strategic investments comprise.

Mr. NATHAN. From a dollar point-of-view, they are huge because these kind of deals absorb hundreds of millions of dollars.

I do not have an exact number, but in terms of the Partnership for Global Infrastructure and Investment, the vast majority of our deals, probably $8 billion out of the over $9 billion of deals will qualify under that kind of——

Senator HAGERTY. Let me encourage a continued focus there, a continued discussion on talent——

Mr. NATHAN. Yes.

Senator HAGERTY. You don't have to do all that today, but——

Mr. NATHAN. Yes. You are absolutely right that in a transaction-based organization like ours, without good people, we can do nothing. Human capital is the most dear thing that we have. We have a fantastic team, great people with deep transactional experience, and then the whole organization that supports that, but we are growing, and so it is a very competitive environment for hiring at the moment, particularly for people who have deep transactional experience, the lawyers, the investment officers.

I have discussed with our staff that one of the things I will raise in reauthorization is whether we can have some greater flexibility on hiring and incentives in order to compete in this very difficult labor market at the moment. That would be very helpful.

Senator HAGERTY. I happen to believe that that could be your key source of competitive advantage, Mr. Nathan. In a different form, I would love to get an update on where you stand with the Trilateral Infrastructure Project. I signed that on behalf of the United States when we put it together, so I look forward to getting an update from your team.

Mr. NATHAN. I would be happy to do that. I think you would be pleased to know that during the Trilateral Summit—Japan, Korea, the United States—we also signed an agreement with our counterparts in those countries, also in addition to the Trilateral Infrastructure Partnership that you were involved in signing.

Senator HAGERTY. Great. Great. Thank you.

The CHAIRMAN. Thank you, Senator Hagerty. Senator Murphy.

Senator MURPHY. Thank you, Mr. Chairman. Good to see you, Scott. Thank you very much for your service. Senator Cardin referenced the ongoing desire to open up an office in Brazil to help quarterback our increasing efforts there, and I wanted to use that as a means to talk about the way that you view the utility of DFC in-country presence.

One place where DFC presence seemed to be working was in the Balkans. There was a Belgrade office that was open, and it was a unique means for the United States to be able to project influence all across the region, even though it was located in Belgrade. Folks from Kosovo and other Albanian majority nations thought that the DFC was a fair actor.

It is closed now, which I think was a mistake, but it does seem, with the opening or the proposed opening of a site in Brazil, that you do see the efficacy of actually having some folks on site. I wonder if there is any opportunity to take another look at the presence in the Balkans.

Over the last couple weeks, we have seen events there spiral nearly out of control. My read is, is that that very small investment paid dividends in terms of deals, but also had a calming effect on the region writ large.

Mr. NATHAN. Thanks for the question. You are absolutely right that increasing our international presence is important. Our peers in the development finance institution world have usually between 15 and 30 percent of their staff abroad, gathering local information, doing business development, and having a presence on the ground, coordinating with their embassies and so forth.

We have 1 percent of our staff. We have five people. It is way too small. It requires funding and it requires the Congressional notification. Just to make sure that we are on the same page about what happened in Belgrade, that office never opened because it never cleared in time Congressional notification. There were people there on temporary duty assignment.

Senator MURPHY. Right. They had really good staff, or the people trusted——

Mr. NATHAN. Yes, yes, on temporary duty assignment. This all happened long before I arrived at DFC, but I have looked into it. We are now, after a comprehensive review of where would be best to expand this presence, we now have a plan to try to take it to 3 or 4 percent of our staff, a tripling or a quadrupling of our staff.

We are looking region by region. There are some issues with space at embassies or where we can get people. We have to coordinate with the State Department. We have to Congressionally notify every single office that we open, but we are working hard at it and have begun discussions.

The Brazil office, that was funded by the State Department. As the ranking member mentioned, we are contributing funding in order to broaden out the mandate from what the State Department funding was restricted to.

Senator MURPHY. That is good news. I hope that you will find bipartisan support for that effort. Again, I hope you will take a look at that region in particular. Last question is this, China takes advantage of countries with high levels of corruption and really weak rule of law. DFC cannot really operate in environments where you have public officials on the take.

I just wanted you to say a few words about how important the work that the U.S. Government does, in particular through State and USAID to fight public corruption, how important those efforts are to your ability to find the space to do deals. This is an advantage China has. They are willing to do deals with officials who are looking for handouts.

We are not. My guess is, is that you rely on the work that the United States and Europe are doing to try to run anti-corruption programing in places that are of interest to you.

Mr. NATHAN. First, I would say it is not always an advantage. I think having our values be clear, transparency, rule of law, private enterprise is something people in these countries want to be associated with.

It often actually has a political advantage to be associated with an American project because it shows that it is clean and that has advantage, but I take your point that many circumstances, particularly in competitive situations, corruption is a problem and is an important tool.

Working with our interagency colleagues, State Department, USAID, but also others who are important for helping create an enabling environment and reform, economic reform, creates more opportunities for business to operate.

That is important for our deal flow. In terms of corruption and transparency, these are things that we are committed to making sure the standards are very high. We work with all of our colleagues at post or in the intelligence community as we conduct know your customer work and due diligence in vetting on our partners.

Oftentimes that results in information that causes us to not be able to pursue deals, but these standards are important. I do not think we should compromise our standards in order to win a deal. Having our values be clear through what we do, I think, is one of the most important elements of what DFC and the other parts of the U.S. Government do.

Senator MURPHY. Well said. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Romney.

Senator ROMNEY. Thank you, Mr. Chairman. First, Mr. Nathan, I applaud you for your willingness to step away from the Baupost Group to help us at the Government level. For those that do not know, Baupost is one of the most, if not the most successful private equity and investment firms in our country.

Thank you for that. I want to associate myself with the comments made by, in particular, Senator Hagerty with regards to our strategic interests, particularly as it relates to China. I sometimes feel that we in Congress and in the Senate live in fantasy-land, which is we think we can do everything for everybody.

We think we can solve the problems of health, of food, of energy, the list goes on and on. Not just here, but all over the world. Frankly, there is not enough money for that. As we think about all the projects you might do that would deal with the issues you just described, our food challenges, energy challenges, creating more jobs for people, alleviating poverty.

My goodness, we cannot alleviate poverty here, how in the world are we going to alleviate poverty all over the entire world? We are not. It would be massively beyond our capacity. Senator Menendez, for instance, spoke a moment ago about we need to try and alleviate poverty in Latin America so there will not be as many people coming here, but our wages are far higher than everywhere else in Latin America.

We cannot raise the economy of Latin America to a level that people do not want to come here. Spending money around the world to alleviate things that we wish would go away, but we are never going to get there, would only make sense, in my view, if it has a strategic significance for us.

If it is something that deals with the interests of the United States of America and our national security, I am pleased that you indicated, yes, that is exactly what you feel, that you have a dual mission.

You consider two things. It is not easy to consider two things at once, but you recognize that a strategic interest is essential for us to make an investment by the DFC. How do you evaluate a strategic interest? What—in your view is—what is the strategic interest of the United States of America?

Mr. NATHAN. Advancing our foreign policy interests, I think includes greater stability, openness, in particular countries where we are trying to strengthen democracy and our allies.

We take advantage of the national security strategy and all the sub strategies for individual countries to understand in the operating environment where we are looking at deals, what the issues are, and how our deals relate.

Then in a more global sense, it is what Senator Hagerty referred to, the global competition with China and other potential authoritarian governments. That is securing for us diverse supply chains and material that we need, these are all parts of the considerations.

Senator ROMNEY. Yes, I agree with you, particularly with regards to the—when you came down to saying, yes, with regards to China in particular, which is saying how do we make sure that we have supply chain of the materials we need, that they do not establish monopolies to keep us from getting able to receive the key elements that we need for our economy and so forth.

That makes all the sense in the world to me. How do you assess those strategic choices? Do you work with other agencies? Is that something that you deal with on your own? How do you decide, for instance, is it going to be a port we are going to invest in, or is it going to be a factory that makes widgets?

Mr. NATHAN. Yes. We take input, obviously, from all of our Board agencies. That State, USAID, Commerce, and Treasury, and then beyond that, throughout the rest of the interagency, including the White House and the National Security Council.

We have 600 people who are focused on doing and supporting and accounting for the deals. We need to take advantage of posts on the ground, our embassies, and colleagues throughout the interagency in order to do that.

Senator ROMNEY. Yes, I would just close by saying that I believe our strategic interests and national security revolve around, if you will, China, Russia, authoritarian States versus ourselves, and that it is entirely consistent with your mission, as I understand it, to invest in those things that promote our national interest—that that keep China and other authoritarian States from impeding our capacity to trade with the world, to lead the world, and to have a prosperous life here in the United States.

Would encourage and encourage your—the DFC effort not to say, just how can we alleviate poverty around the world, and how—because that is a task monumentally beyond our financial capacity, to instead say which things are specifically in the interest, the national security interests of the United States of America, particularly as it relates to China.

Because today, that is our foreign policy and national security challenge, is China, Russia, the authoritarian states. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Romney. Senator Kaine.

Senator KAINE. Thank you, Mr. Chairman. Mr. Nathan, I join Senator Romney in saying I think the country is fortunate to have you in this position at this time. My colleagues have asked a number of good questions.

I really want to focus on Latin America, but to illuminate some issues that are not just Latin America-based, but using Latin America as an example. You referenced, and I think Senator Cardin did in his opening comments, the fact that you are limited in where you must prioritize investments by the World Bank classification of countries by income.

You should prioritize lower middle income countries, and you need a waiver to invest elsewhere. There is only five countries in Latin America that meet the World Bank category, and they are, let's see here: Bolivia, El Salvador, Haiti, Honduras, Nicaragua are the only five that fit within those World Bank classifications.

Now, by waiver, you, the DFC is involved in other countries: Peru, Brazil, Ecuador, Dominican Republic, Guatemala, Colombia, Mexico, but you have to get a waiver to do that. Russia is not worried about World Bank—China is not worried about World Bank classifications. They will make investments wherever they think they can advance their interests.

In the current set up, we have at least put a hurdle in your way. As I travel around the Americas, what I hear again and again from some of the nations that are not in the five is, we are your friends, we are doing things the right way, we can really advance more quickly, be a good example in the neighborhood, hopefully abate some of the migration pressures, but you limit investments in our country and China does not.

Talk a little bit about the limitation and the waiver processes. Is the waiver sufficient, or if you—as you contemplate reorganization, what suggestions would you have to Congress in this space?

Mr. NATHAN. Thanks so much for the question. Under the *BUILD Act*, to operate—to do transactions in an upper middle income country, you are right that we need a waiver from the President that it is in the economic or national security interest.

That has been delegated to the State Department. We have spent a lot of time negotiating with the State Department to try to create exemption pathways for certain categories of investments so that we know in advance that we can do deals in upper middle income countries that are in those sectors.

Senator KAINE. You do not have to go down the road and——

Mr. NATHAN. For every single deal.

Senator KAINE. Right.

Mr. NATHAN. That is working. It is why in the last year Ecuador became the second biggest exposure for DFC in our whole portfolio globally.

Senator KAINE. This port investment that you talked about.

Mr. NATHAN. It is a port investment. It is a hospital investment. It is a power deal. It is the largest debt-for-nature swap in history that will help Ecuador by reducing debt to help them deal with economic coercion, and also provide funding for conservation activities and the enforcement against illegal and unregulated fishing in the Galapagos.

We have done a whole series of transactions. It is partially because we have had a government who has been a great partner and a President there who has been fantastic. He is leaving office soon.

Senator KAINE. Sadly, yes——

Mr. NATHAN. Ecuador, I think, is a good model for where it is working.

Senator KAINE. You are right——

Mr. NATHAN. There is still friction in other circumstances.

Senator KAINE. Do you think the waiver process is sufficient to give you the tools that you need? Because, again, as I am traveling in the region, I am hearing, wow, we wish—China does not have these restrictions.

We wish you were a little less restrictive in the space. I completely get why BUILD would have prioritized the countries of the greatest economic need, but there are other imperative values as well.

Mr. NATHAN. The waiver process is working, but it is not perfect, and also creates in the areas that are not in the exemption pathway, a significant sort of time delay and an administrative and work hurdle.

Senator KAINE. Let me give you an example. The chairman and I met yesterday with the President Elect of Guatemala. Guatemala is not on the five country list. He won a surprise election on a very aggressive anti-corruption campaign.

I think the U.S. would have a lot at stake in seeing his efforts succeed when he is inaugurated in January, but right now, Guatemala might not get the national security waiver or might not be able to demonstrate an absence of private capital, and yet it would be in the security interests of the United States for an anti-corruption government in the Northern Triangle to be successful.

I would hope—I said this to the chairman yesterday, I sometimes think we spend a lot more time figuring out ways to use sanctions to punish enemies than we do figuring out ways to reward good behavior.

The DFC is one of the areas where we can reward good behavior, and I just hope that the restrictions in place do not make that unnecessarily challenging, especially vis à vis China. I yield back, Mr. Chair.

The CHAIRMAN. Thank you, Senator Kaine. Senator Young.

Senator YOUNG. Thank you, Chairman. Welcome, Mr. Nathan. Thank you for your service. The first thing I would like to discuss is the DFC's sort of general focus. We know it is on development. That is laid out in its charter. In fact, its decision making process is advised by a counsel focusing on developmental priorities, and for good reason.

There is definitely a need for that. One of the things the committee is going to have to think about moving forward as we consider the future of the DFC is what focus we are explicitly putting on the agency emphasizing countering national security concerns in addition to developmental priorities.

This is something I know my colleagues have brought up. What current consultative mechanisms exist beyond the Board of Directors to ensure interagency opinions on national security risks or priorities from DoD, the intelligence community, National Security Council, for example, and how are these shared and incorporated into financing decisions?

Mr. NATHAN. Senator, thanks for the question. You are absolutely right that these considerations are at the fore of our decision making. The first area is thinking about where we should be spending time looking for deals, what countries.

As Senator Kaine indicated, for example, we are spending a lot of time in Guatemala looking for deals despite the certification hurdle because of all of the foreign policy and national security interests that would be involved there.

We consult with the embassy, with the State Department, our regional bureau. The intelligence community is very important in certain circumstances for thinking about where our strategic competitors might also be focusing.

Senator YOUNG. Is there a formal consultative process or protocol that DFC goes through to try and prioritize these different countries?

Mr. NATHAN. There is a lot of consultation. It is not a formal process.

Senator YOUNG. Okay.

Mr. NATHAN. Yes.

Senator YOUNG. Perhaps, would one make sense or do you feel like a more flexible process——

Mr. NATHAN. Yes, I refer back to what Ranking Member Risch referred to. The flexibility is extremely important because each different circumstance would require different consultation.

For example, in the Western Hemisphere, I have recently had meetings with the Combatant Commander for SOUTHCOM, who is very focused on economic development and the tools that DFC has in order to promote democracy and free enterprise.

That is extremely valuable, but in other Combatant Commands, it might not be as relevant. I think we need to be able to use the tools that are within the interagency and across the Government for the correct circumstances.

I want to assure you that consultation and gathering information and doing this analysis is a central part of our work.

Senator YOUNG. Thank you. The other thing I want to address is financing of hard infrastructure projects, specifically digital infrastructure. Something I would like to see in this space is the funding for strengthening digital infrastructure like DFC support to the Africa data center's new facility in Kenya.

These secure and reliable networks, I think, are going to have to be a priority. You are taking some actions in this area, but we cannot limit this priority to basic advisory opinions or technical support.

Given limited time here, about 40 seconds, would you please comment on what DFC is doing to support grid development, in particular microgrids, and how you are coordinating that development financing with complementary bodies, MCC, U.S. Trade Development Agency, Cyberspace and Digital Policy Bureau at the State Department, etcetera.

Mr. NATHAN. Thanks for the question. First, I completely agree with you on the digital infrastructure front. We have had recent success in that area, $300 million loan to Africa Data Centres.

I am actually heading to Ghana next week where they are opening another data center with trusted equipment. There are other opportunities in the mobile telephone space. It is very important for us to push forward with secure, safe, open networks, with trusted equipment, and that we support an alternative offering to what China is offering.

On the microgrid area, we have had success in funding some of that activity, particularly in Africa, for distributed energy, for areas that are not connected to larger grids. You are right that our interagency partners, often our source of deal flow or technical expertise, that is certainly something that we rely on, and this is an area that we would definitely like to advance further. Providing reliable access to sustainable electricity is a key to development and is in our strategic interest.

Senator YOUNG. Thank you.

The CHAIRMAN. Thank you, Senator Young. Senator Shaheen.

Senator SHAHEEN. Thank you, Mr. Chairman. Thank you, Mr. Nathan, for being here. I want to begin by recognizing DFC's finalizing the commitment for up to $300 million in the Investment Fund for the Three Seas Initiative. I think that is a very important investment, and especially given Ukraine recently being granted a partner nation to the investment initiative.

I hope you will consider this as another way that we can support what is happening in Ukraine. Like most of us on this committee, I was very disappointed that when we passed the continuing resolution on Saturday that it did not fund Ukraine in the way that we had talked about and believe it should be.

I wonder for the benefit of those people who say why are we support in Ukraine, would you talk about the interconnection between our economy here and what is happening in Ukraine, and why our investments there have some real benefit for the American public and the businesses in the U.S.?

Mr. NATHAN. First, I would say, Senator, I think it is the right thing to do. I have been to Ukraine three times in the last year. Our predecessor agency had $800 million worth of exposure there through a variety of different investments, and we have continued to expand that portfolio to support the private sector in Ukraine.

That is support for small business. That is in the agricultural space. That is health care. A thriving private sector in Ukraine, which is possible at the moment, will help them be in the position for reconstruction and recovery as opposed to being further damaged. We are committed to keeping people employed, having them pay taxes, support the war effort and support the government.

We are trying through many different possible projects to do that, and we are starting to have a great deal of success, but in a broader way, particularly in the agricultural space and food security, Ukraine plays such an important role in the Middle East, North Africa, across the African continent, the World Food Program, as the biggest source of grain still to the World Food Program.

It is in our interest to not have people starving around the world. It is also the right thing to do. Anything we can do to support Ukraine in that regard, I think, is worthwhile.

Senator SHAHEEN. Thank you. I would also argue it is in our national security interests not to have a Vladimir Putin who feels free to go into any country that he likes and take it, and the message that that sends to China and to Iran and North Korea is very important.

I understand before I got here that you testified that about 1 percent of the employees of DFC are outside of the United States. Is that correct? I was very happy to see that your request, which the Appropriations subcommittee has fully funded, includes funding for 10 DFC country offices.

I certainly support that. I think it is hard for us to figure out what the needs are if we do not have people there on the ground. I certainly share Senator Murphy's concern about the missed opportunity in the Balkans.

Right now, we have several countries in the Balkans that are on the verge of outright conflict: Serbia and Kosovo, and Bosnia. We also have several countries there that have made tremendous progress, as have those countries in some areas on democracy building. Montenegro and North Macedonia are members of NATO.

Those are places that we want to invest because we do not want Southern Europe to explode in the same way that we are seeing the land war in Ukraine. Can you talk about what criteria you are looking at and to what extent you might be considering offices someplace in the Western Balkans?

Mr. NATHAN. Yes. As part of our strategic review of, and our planning for how to deploy officers, we looked at, by region, where we are likely to locate offices that can be useful to a region from a connectivity point of view to avoid the difficulty of travel that comes up.

We looked at where we are likely to get the most leverage from having a person on the ground for business development and filling our pipeline of potential deals.

Senator SHAHEEN. Are you looking at anywhere in the Western Balkans?

Mr. NATHAN. Yes. We would consider Europe as part of our plan. Whether it would be in Central Europe, in Ukraine or in the Balkans is still up in the air. One of the things about Europe is that it is easier for our people to get there from Washington, as opposed to if you are looking at certain places in West Africa or in South Asia.

Senator SHAHEEN. You have not been to Georgia recently, have you?

Mr. NATHAN. I was there actually a year ago. I was in Tbilisi.

Senator SHAHEEN. You think it is easy to get there.

Mr. NATHAN. Yes, but you should try to get to Freetown, Sierra Leone. None of it is easy. I will say in Georgia, I was delighted to visit there because DFC has a 30-year history of investing there, and obviously with our predecessor. From Washington, DC, we have done over 60 deals in Georgia over that history.

Senator SHAHEEN. Yes, I would hope that Georgia would be one of the places you are also considering for an office, because of its strategic location in between Europe and Central Asia. I know I am out of time, Mr. Chairman, but let me just also weigh in and say that I certainly support the equity scoring fix that has been raised and hope that that can get done. Thank you.

The CHAIRMAN. I noticed Senator Van Hollen appreciated that you took the extra 2 minutes so that he could make it to the committee. Senator Van Hollen, if you are ready, you are on.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Senator Shaheen, thank you for taking a little more time. Let me also just second what Senator Shaheen and I am sure others have said about the importance of fix—making the equity fix.

I know, Mr. Nathan, that is something you have focused on. Thank you and your team at the DFC for all you are doing. I want to pick up on a question that I understand was asked earlier on political risk insurance, because, of course, the DFC grew out of OPIC, and OPIC specialized in political risk insurance.

My understanding is that we could be helping a lot of investments in Ukraine potentially, which is going to be essential for reconstruction in Ukraine, but that there is an impediment right now in terms of the scoring on political risk. Is that right? If you could please talk a little bit about that.

Mr. NATHAN. You are absolutely right that political risk insurance is an extremely valuable tool for mobilizing private capital, which is really what DFC is all about, mobilizing private capital to address the kinds of issues that we have been discussing today.

You are also right that political risk insurance, particularly war risk insurance, is key to attracting private capital today in Ukraine, for obvious reasons.

Taking that tail risk off the table for potential lenders or investors is critical so that they can focus on making the commercial and business analysis, and not have to worry about the larger macro or war issues.

You are also right that the tool is somewhat constrained at the moment, and here I do not want to go too deep on the technicalities of it, but it is not quite for a scoring reason, but because of a disagreement about whether political risk insurance on debt should be considered as a guarantee or as insurance.

The *BUILD Act* talks about political risk insurance as an insurance tool. That is our position. If we are able to use political risk insurance to its full promise, I think the potential to make an impact in Ukraine for financing not only recovery in the future, but today, to help businesses stay alive and have money flowing to the private sector today is huge.

Senator VAN HOLLEN. This disagreement you are referencing, it is my understanding that is a disagreement between DFC and OMB. Am I correct about that?

Mr. NATHAN. That is correct.

Senator VAN HOLLEN. Okay. If we took OMB's interpretation, would DFC actually be more constrained in providing political risk insurance that OPIC was?

Mr. NATHAN. You are very well informed. Yes, that is exactly the case. The issue there is whether we would need to obligate subsidy against, or our appropriation, against political risk insurance. Not something OPIC ever did, or we have viewed that we have ever had to do.

In situations like Ukraine, which is obviously of greater risk than most other markets today for clear reasons, the amount of subsidy that would have to be obligated, if we were even allowed to do that, would be very large, or we would have to price the product in a way that no person would ever accept that pricing and use the tool to begin with.

Senator VAN HOLLEN. Right.

Mr. NATHAN. I think, exactly——

Senator VAN HOLLEN. I appreciate that. I was here for the discussions over transforming OPIC into DFC, and I think I can speak, at least for most members, that the idea was to expand the authorities of DFC compared to OPIC, not constrain them in any way from what OPIC had.

It would be a step backwards if folks are essentially saying that DFC does not have the tools when it comes to political risk insurance that OPIC had. If I could just turn quickly to just the—some of the internal machinery, and I know the way DFC is set up, you need other agencies to provide input.

My team recently met with representatives from a company called Africell, which is a U.S. company investing in telecommunications networks in Africa without using Chinese technology, trying to encourage the move away from that, but they found their experience with DFC painfully slow, and they ended up going to look for others.

Could you describe any way we can help you, and I know this is a sort of an open question, but what can we all do to help turn around the time—to help fix the timeliness of your decision so you can be more flexible and nimble?

Mr. NATHAN. Thanks for the question. First, I should say Africell is an important partner of ours. They have received $100 million of financing. We have supported their expansion in Sierra Leone. I visited them in Gambia and we are considering ways that we can support their expansion elsewhere in Africa.

These situations are complicated. There are multiple factors that go in. They experienced some financial difficulty and defaulted on our loan. We are in the process of helping them get through that. They have also been quite effective in speaking to people about that. In general, I agree with the thrust of your question, which is we need to be faster, we need to be more responsive, we need to be more responsive to clients.

Part of that is making sure that we are organized in a way that can address client needs with our full suite of tools that can have consistent business development in a sector related to clients. That is why we are realigning the investment organization around our priority sectors so we can have that consistency.

In terms of the process of reauthorization, there is a whole set of issues that slow us down, that create uncertainty. Some of them have been addressed today, issues related to certification and notifications. Some of it is just the nature of what we do. That through the Know Your Customer process, there is uncertainty through the vetting process.

It is necessary that we do that. I do not want to change our standards on that, but streamlining approvals and certifications and notifications and those kind of things will allow us to be quicker. Working with our Board to be quicker with approvals is important.

Getting through the kind of vetting that I mentioned in a more expeditious manner would mean that we can meet those client needs more rapidly and be more responsive.

Senator VAN HOLLEN. Thank you. I look forward to following up with you on some things we can do to help. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Van Hollen. Mr. Nathan, as you can see by the participation of our committee, there is a great deal of interest in this subject, and we do welcome your thoughts as we are moving towards a reauthorization process.

I want to make one observation about the response I think it is to Senator Murphy's and Senator Romney's questions on good governance and anti-corruption. Several times you mentioned your reliance upon our embassy or mission for the information.

One of the challenges we have—we are going to try to help you with legislation that Senator Young and I have gotten through this committee. It is now in the *National Defense Authorization Act*.

To build the capacity of our missions to be able to evaluate good governance and anti-corruption issues, because we find that as you are going through the strategic aspects of your work, that the mission may well be focused on how to help Ukraine or how to deal with supply chain issue, or how to deal with some other military issue, and the capacity in regards to anti-corruption does not always go front and center.

I would be curious as to how you make those evaluations, if you do not have the capacity within the mission to really advise you and give you the most up-to-date information about the corruption issues within the country that you are dealing with.

We are trying to build up that capacity within our embassies, and we hope that that legislation will be successful in the *National Defense Authorization Act*. I am going to also have a few questions for the record for you in regards to how you are utilizing the Development Advisory Council, the independent accountability mechanisms, and how you are dealing with the—your advisor, the specific position that was—that you had the Chief Development Officer.

The record will remain open for—till the end of business Friday, for members who may have questions for the record. Before we adjourn, I am going to recognize Senator Risch for any additional comments he may want to make.

Senator RISCH. Thank you, Mr. Chairman.

The CHAIRMAN. Good. If not, then the committee will stand adjourned. Thank you very much.

[Whereupon, at 11:34 a.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

RESPONSES OF MR. SCOTT NATHAN TO QUESTIONS SUBMITTED BY SENATOR BENJAMIN L. CARDIN

Question. Independent Accountability Mechanism. About 5 years after the *BUILD Act* was passed and more than 3 years after DFC became operational, the accountability mechanism mandated by the *BUILD Act* still does not have procedures to guide the complaint process. This undermines the effectiveness of this office to address concerns from communities about risks and impacts that can harm people, the environment, and the sustainability of DFC's investments.

When will DFC launch a public consultation on the procedures for the Independent Accountability Mechanism?

How will the DFC formally utilize finding and outcomes that result from the Independent Accountability Mechanism?

Answer. The Independent Accountability Mechanism is functionally independent from DFC and reports directly to the Board and Congress. A process is currently under way for hiring a new Director for the mechanism and DFC anticipates that the new Director will be able to put procedures in place after their arrival. The IAM can provide advice or reports regarding Corporation projects, policies, and practices, with findings and recommendations for the agency. DFC assesses and responds to these recommendations.

Question. Environmental Social Policy and Procedures. As you have expanded DFC's operations, it is also important to expand the resources devoted to environmental and social due diligence and monitoring. Although DFC has taken steps to hire additional staff, the level of staffing for these functions is still not commensurate with DFC's work and financing.

How will you address this now and as we move towards reauthorization?

DFC's Environmental and Social Policy and Procedures requires that DFC publish environmental and social impact assessments and other documents for sub-projects. This is important to understand the full impacts of DFC's financing.

Where does the DFC publish such information on sub-projects is listed?

What information does DFC track on financial intermediaries?

Answer. *Staffing:* Having sufficient staffing to assess environmental and social risks of its projects is critical to DFC's ability to deliver development outcomes. DFC's staffing for environmental, social, and impact assessment and monitoring is significantly smaller than peer development finance institutions when compared to the size of portfolios being managed, according to a recent report from DFC's Inspector General. The reason for this is that DFC's administrative budget is smaller in comparison, and its flexibilities to match private sector salaries are more limited. DFC has already undertaken efforts to increase the size of its environmental and social team in the midst of a competitive hiring environment for professionals with these skills. Recruitment efforts will continue in the coming months to bring on more staff. As DFC's pipeline and portfolio continue to grow, and the complexity of projects increases, DFC will need additional resources to ensure environmental and social risks are adequately addressed.

Environmental and Social Policy and Procedures: To receive and maintain DFC support, every project—whether supported with insurance, direct loans, equity, investment guarantees, or technical assistance—must comply with DFC's environmental and social (E&S) standards. The policies and procedures for both the environmental and social risk assessment are described in the DFC Environmental and Social Policies and Procedures (ESPP) posted on DFC's website. The ESPP adopts the International Finance Corporation's Performance Standards on Social and Environmental Sustainability as the standard for the environmental and social review process. These are widely recognized and utilized as the benchmark E&S standards within the Development Finance Institution (DFI) community. Projects that are likely to have significant adverse environmental or social impacts, including sub-projects of Funds or financial intermediaries, are disclosed to the public for a comment period of 60 days prior to final approval. Documentation associated with the environmental and social impact assessment of these projects are disclosed on DFC's website.

All applicants for DFC support go through a detailed credit, legal, know-your-customer, environmental, and social due diligence process. DFC evaluates each potential project on its own merits, including potential loans or guaranties to financial intermediaries. As part of this process, DFC discusses individually with potential clients their lending practices, any social policies in place, whether they adhere to international client protection principles, and other factors that DFC can incorporate into agreements on an individual basis to create development impact and protect consumers.

Question. Development mandate. The *BUILD Act* mandated that development would be a core function of the new DFC. There is evidence that this commitment to development has been lacking—for instance, it took a significant amount of time to stand up both the Development Advisory Council and the Independent Accountability Mechanism and it is not clear what either is doing. I believe these mechanisms, as well as the Chief Development Officer, are critical to providing accountability for taxpayer dollars and ensuring DFC is fulfilling its *BUILD Act* mandate.

Please describe the role the Development Advisory Council and the Independent Accountability Mechanism play in advancing DFC's mandate, including the number of staff and/or advisors for both the Council and the Mechanism.

Please describe the role of the Chief Development Officer, including the number of staff in the CDO's office.

Going forward, what role do you envision the Chief Development Officer, the Council and the Mechanism play in advancing DFC's mandate?

Answer. The Development Advisory Council (DAC), which is comprised of nine members, advises the Board of Directors on meeting DFC's development mandate and makes suggestions for improvements with respect to meeting that mandate. The DAC has met with several key stakeholders to gather their observations and recommendations regarding the Council's work, and has used these meetings to inform its own recommendations for DFC management.

The Independent Accountability Mechanism, which is managed by the Office of Accountability, works with project-affected parties and DFC clients to help resolve conflicts and conducts investigations about how DFC applied its relevant policies to a project. It is available to project-affected parties, as well as DFC's Board.

The Office of Accountability is mandated to provide these services upon request in a manner that is accessible, fair, objective, and transparent. In providing its services, the office complements DFC's mission as a financial institution that promotes environmentally and socially sustainable development.

The Director of the Office of Accountability coordinates all office services, including related contracting, updates its website, and manages its budget. To maintain the office's ability to provide services independently of DFC's financial operations, the *BUILD Act* of 2018 stipulates that the Director reports directly to DFC's Board of Directors.

The Chief Development Officer serves as a senior advisor to the CEO and the Board of Directors with a focus on maximizing the Corporation's development impact across its portfolio and its alignment with U.S. Government policy. He and his team of four full-time staff, two detailees, and one intern coordinate with stakeholders including the DAC, DFC's Policy Coordination Group and business lines, other DFIs, foundations, nongovernmental organizations, and civil society to gather, evaluate, consolidate, and promote specific recommendations (including those generated by the DAC) to achieve that impact. The CDO also directly oversees the operation of the Development Advisory Council and serves as an ex officio member. We anticipate that the OCDO will continue to strengthen and institutionalize this crucial role and we are exploring ways in which the CDO can be better integrated into the Corporation.

Question. Coal Power. How many proposals for coal fired power plants, coal extraction, or coal power supply chains has the DFC or OPIC received in the last 10 years?

Answer. Neither DFC nor its predecessor, OPIC, has received an application for a coal power project during the last 10 years. DFC has seen declining interest in support for these technologies, given the highly competitive pricing of renewable technologies, including many battery technologies developed in the U.S., as well as increased availability and the low cost of gas.

Question. Microfinance. I appreciate DFC's work to advance development outcomes through microloans to borrowers. However, I remain concerned about DFC's use of financial intermediaries to not only provide these loans, but also to adjudicate any alleged predatory lending practices or issues the borrowers may face. In other words, I'm concerned DFC is tasking large financial institutions with being both the robber and the cop when it comes to microlending through financial intermediaries.

Do you believe it is appropriate for banks to police themselves in this instance?

What role does DFC play in ensuring banks are held accountable for any predatory practices? How often does DFC conduct spot checks and other forms of analysis to root out potential predatory practices?

What is DFC's role if predatory activity is uncovered to respond to that activity and provide remedy to harmed individuals or communities?

Answer. DFC takes seriously any allegations of predatory lending and other practices that negatively affect consumers. DFC project teams perform enhanced diligence on transactions that support microfinance institutions (MFIs) and financial institutions where DFC proceeds support micro-enterprise lending. This entails screening potential investments for adherence to Client Protection Standards, and confirming that providers do not over-indebt clients, treat clients fairly, and set prices responsibly. DFC also reviews the MFIs' problem asset management and collection policies and procedures.

Question. Anti-Corruption. How does the DFC assess and evaluate whether the actors involved or beneficiaries of supported project are engaged in corruption, and what standards the DFC use to ascertain such determinations?

How does the DFC account for whether the partner country for where DFC support or investments are being made are practicing good governance and what standard of good governance does the DFC apply to these assessments?

Answer. DFC places a strong emphasis on honesty and integrity and seeks to partner with reputable and well-governed entities to ensure that the resources it mobilizes are used for the intended purposes. This requires us to conduct rigorous due diligence on the projects DFC supports as well as their direct and indirect owners and other relevant parties, to prevent DFC from unintentionally supporting parties involved in serious financial misconduct or other inappropriate behavior, including corruption and money laundering.

To this end, DFC has robust know-your-customer (KYC) policies and procedures in place, pursuant to which DFC assesses information obtained through several sources including U.S. sanctions lists, commercial and public databases, and other agencies such as the Department of State, Department of Treasury, and the intelligence community to identify risks and make informed decisions.

DFC also assesses whether our counterparties, and particularly financial institutions through which it mobilizes resources, have adopted or are committed to adopting, as a condition for receiving DFC financing, adequate compliance policies and procedures to prevent and control corruption and money laundering risks in their activities and to comply with applicable U.S. sanctions. DFC includes in its contractual documentation covenants related to the maintenance of such compliance programs and controls.

Question. Realignment. Please describe the reasoning for placing Political Risk Insurance (PRI) in the Energy sector group, given PRI will remain cross sector.

Answer. PRI is a critically important and valuable tool for DFC to unlock private investment in high risk geographies given its utility in covering some of investors' greatest concerns. Our goal is to expand DFC's capacity to do more PRI transactions in the future across all sectors. Placing PRI in the Energy sector group will offer the PRI team structure and support within a sector vertical as we strengthen DFC capacity to utilize this critical tool.

Question. How do you envision an Energy sector VP to review cross sector transactions brought forward by the PRI team?

Answer. It is planned that the PRI team will be overseen by a Deputy Vice President with experience in political risk insurance and who will be dedicated to reviewing cross-sector transactions.

Question. Why was the "joint" finance and insurance positions created? How was the decision made to eliminate these positions?

Answer. Finance & Insurance officers will continue to exist in the realigned sector structure; they are not being eliminated. The position ensures that investment teams are cross-trained and able to leverage key knowledge, skills, and capabilities relevant to both finance and insurance aspects of the transaction process. There are and will continue to be positions that only work on insurance to ensure we have breadth and depth of expertise as we continue to grow the PRI product.

Question. Will the monitoring team also be restructured according to sector? Is DFC considering combining the origination and monitoring teams?

Answer. Teams responsible for monitoring activities are aligning internally to support the sector-based structure and will continue to monitor transactions as they do currently. Investment officers will continue to originate transactions with the support of sector-aligned business development experts.

Question. How is DFC determining which individual officers are assigned into specific industry verticals?

Answer. Both qualitative and quantitative inputs informed the placement of staff within sector teams, and we consulted with all Managing Directors across the business lines. The composition of sector teams is guided by five design principles: (1) proactively break down product silos and foster collaboration; (2) keep teams together with current Managing Directors (MDs); (3) leverage sector expertise MDs and their teams have developed to date using a data-driven approach; (4) build for the future while recognizing DFC's context today; and (5) embed accountability, performance, and delivery in the design.

Question. Given the industry focus, it would seem important that the person with the right background is matched with each more specialized position. Is an analysis of each individual's prior work experience, skill set, performance history and career interests being conducted prior to selection?

Answer. The placement of individuals in a particular sector is informed by a data-driven approach that leverages the sector expertise, deal history, and existing client relationships of individuals and their teams. Managing Directors across the business lines were also consulted to provide input to the organizational design development process.

Question. I understand that DFC plans to re-assign staff based on their current team reporting structure?

Answer. There are a few key design principles to inform the realignment process: (1) proactively break down product silos and foster collaboration; (2) keep MD teams together to minimize disruption; (3) leverage sector expertise MDs and their teams have developed to date; (4) build for the future by looking at our sector-specific ambitions; and (5) embed accountability, performance, and delivery in the design.

Question. How does this ensure that each respective individual is being adequately consulted and evaluated during this process especially when most teams are currently not specialized?

Answer. DFC has provided and continues to provide multiple opportunities for individuals to engage in the realignment process. Since May 2023, DFC management has held more than 100 meetings with staff across DFC, including over 30 meetings with senior leadership at the Vice President or Deputy Vice President level, 30 meetings with those at the Managing Director level, and 45 meetings with those at the Director level or below. We have also conducted two office hours and two key topic discussions which were each open to all staff and attended by more than 100 participants in each one. Strategy updates are shared in monthly town halls and individuals are encouraged to send questions or concerns to a dedicated strategy inbox that has so far fielded over 35 inquiries.

As the realignment is implemented, individuals will have opportunity to discuss their new assignments in a series of 1:1 and group conversations with their supervisors and management.

Approximately 86 percent of the work currently being performed aligns to the new sectors, and DFC envisions that the realignment will provide enhanced advancement and professional opportunities for staff.

Question. Is an individual's entire work experience being considered including experience at OPIC/DCA and previous organizations?

Answer. The placement of individuals in a particular sector is informed by a data-driven approach that leverages the sector expertise, deal history, and existing client relationships of individuals and their teams. In some instances, individuals may have developed sector relevant expertise and relationships prior to their affiliation with DFC.

Question. How do national security interests benefit from the industry specialization approach? Will the organization be flexible enough to re-assign staff members based on changing national security and foreign policy priorities and considerations?

Answer. A sector-based approach will enable DFC to build expertise more effectively in areas that shape the marketplace, maximize private capital mobilization, strengthen client relationships, and focus on strategic priorities, inclusive of national security and foreign policy objectives. It will also provide the ability to advance opportunistic transactions in non-prioritized sectors, which allows DFC to be flexible and responsive to national security crises. Sector teams will include new vacancies in alignment with anticipated growth for the agency.

Question. Will each sector silo have its own policies and procedures? Or will policies and procedures be produced by product type?

Answer. Sectors will be guided by sector strategies that align with the mission and strategic objectives of the organization and that include cross-cutting priorities as well as collaboration across sector teams. While the leadership in individual sectors may find efficiencies in creating sector-specific guidelines and processes, policies and procedures that govern the transaction process and required institutional approvals will continue to operate at a product level and be standardized across all sectors.

RESPONSES OF MR. SCOTT NATHAN TO QUESTIONS
SUBMITTED BY SENATOR JAMES E. RISCH

Question. Solar Projects / Slave Labor: I remain deeply concerned about DFC support for solar projects involving Chinese-sourced components or equipment. Relying on China for green energy presents significant geostrategic challenges and undermines our development and national security objectives.

Please describe the concrete steps the DFC is taking to ensure clean supply chains, including for solar.

Answer. DFC prohibits companies from using proceeds from its support—both directly and through intermediaries—for the purchase of solar panels that are manufactured by entities subject to U.S. sanctions or a Customs and Border Protection (CBP) Withhold Release Order, or listed by the Forced Labor Enforcement Task Force as described under the *U.S. Uyghur Forced Labor Prevention Act*.

In addition, all DFC projects are obligated to comply with the International Finance Corporation's Performance Standards (IFC PS) for environmental and social risks. Labor standards in the IFC PS, including a prohibition of the use of forced or child labor, explicitly apply to projects' primary supply chains. DFC also participates in development finance-oriented supply chain working groups to identify opportunities to align supply chain risk mitigation practices with multilateral development banks, including the IFC, and peer development finance institutions.

DFC is continuing to pursue opportunities to diversify solar, battery, and other supply chains. For example, DFC recently committed support to two investments in solar manufacturing in India including $500 million for a 3.3 gigawatt (GW) solar module manufacturing facility being developed by a U.S. company, First Solar, and a $425 million loan to TP Solar for a 4GW solar cell and module facility. These investments will contribute to the development of alternative supply chains that reduce the risk of dependence on a single market.

Critical minerals are also indispensable to clean energy technologies, including solar photovoltaics. DFC actively looks to invest in projects that support critical minerals production and processing, which would help meet increasing global demand, while also supporting positive developmental impacts. DFC is committed to identifying pragmatic opportunities to diversify critical minerals supply chains to enhance security and reliability in the global market and limit the potential for price volatility. It is also considering opportunities to invest in infrastructure that can enable more effective investment in critical minerals production (e.g., transport links and energy supply).

Question. Please provide a breakdown of the number of solar projects approved during your time at DFC as well as the number of potential solar projects that are in the pipeline.

Answer. The list below includes active/approved projects. The number of projects in DFC's pipeline is difficult to report given uncertainties about which projects will be confirmed as strong candidates through our due diligence processes.

Fiscal Year	Region	Country	Project	Amount
2023	Asia	India	*TP Solar Limited* Loan to finance the construction of a 4GW solar cell and module manufacturing facility.	$425,000,000
2023	MENA, Europe	Multiple	*Alcazar Energy Partners II (https://www.dfc.gov/sites/default/files/media/documents/Alcazar%20Public%20Information%20Summary.pdf)* Equity investment in a fund that will invest in renewable energy infrastructure projects, with a primary focus on solar PV and onshore wind greenfield projects.	$50,000,000
2023	Asia	India	*SAEL (https://www.dfc.gov/sites/default/files/media/documents/SAEL%20Industries%20Limited%20Public%20Information%20Summary.pdf)* Equity investment to support fund the development of new solar and waste-to-energy investments.	$35,000,000
2023	Africa/Asia	India and Nigeria	*Husk Power Systems* Equity investment to support Husk to expand reliable energy access in Nigeria and India through solar PV mini-grid installations and services.	$15,000,000
2023	Western Hem	Ecuador	*Solararomo S.A.* Political risk insurance for development, construction and operation of a 200-megawatt solar photovoltaic plant	$50,000,000

Fiscal Year	Region	Country	Project	Amount
2023	Western Hem	Ecuador	*Solararomo S.A.* (*https://www.dfc.gov/sites/default/files/media/documents/Solararomo%20Public%20Information%20Summary.pdf*) Loan for development, construction and operation of a 200-megawatt solar photovoltaic plant	$144,000,000
2023	Africa	Democratic Republic Of Congo	*Bboxx Capital RDC SARL* (*https://www.dfc.gov/sites/default/files/media/documents/9000115586.pdf*) Corporate loan to finance long-term working capital for the Borrower to expand the supply of solar home systems and related appliances in the DRC.	$10,000,000
2023	Africa	Nigeria	*Greenlight Planet Solar Home Systems* (*https://www.dfc.gov/sites/default/files/media/documents/9000115468.pdf*) Greenlight Planet aims to distribute and finance high quality affordable off-grid solar system solutions.	$50,000,000
2022	Europe	Kosovo	*Kosovo Credit Guarantee Fund* (*https://www.dfc.gov/sites/default/files/media/documents/9000104298.pdf*) DFC and KCGF collectively guarantee series of Kosovar Banks who ultimately lend to series of renewable energy IPPs (namely solar)	$7,500,000
2022	Africa	Multiple	*Africa Renewable Energy Fund II* (*https://www.dfc.gov/sites/default/files/media/documents/PublicInfo Summary__AfricaRenewable EnergyFundII.pdf*) Investment in a fund that will develop and invest in mid-sized, grid-connected renewable energy projects, primarily run-of-river hydro, solar, and energy storage.	$40,000,000
2022	Africa	Kenya	*Brighter Life Kenya 2* (*https://www.dfc.gov/sites/default/files/media/documents/9000115661.pdf*) Receivables financing facility to purchase off-grid solar home systems and mobile phones in Kenya.	$20,000,000
2022	Asia	India	*FS India Solar Ventures Private Limited* (*https://www.dfc.gov/sites/default/files/media/documents/9000115523.pdf*) 3.3GW/Annum First Solar thin-film module manufacturing facility in India.	$500,000,000
			Golomoti JCM Solar Corporation Limited (*https://www.dfc.gov/sites/default/files/media/documents/9000105383.pdf*)	

Fiscal Year	Region	Country	Project	Amount
2022	Africa	Malawi	Build Own Operate a 20MW Solar PV + 5 MW/10Mwh Battery Storage—20-yr PPA with ESCOM, in the Golomoti district in Malawi	$25,000,000
2022	Africa	Africa Regional	*Mirova Gigaton Fund* (*https://www.dfc.gov/sites/default/files/media/documents/9000115510.pdf*) Debt fund making downstream loans to off-grid solar and clean energy transition companies globally, primarily SMEs in Africa and Asia	$100,000,000
2022	Asia	India	*Orb Energy II* (*https://www.dfc.gov/sites/default/files/media/documents/9000104476.pdf*) Financing for SME borrowers to purchase commercial and industrial solar PV systems in India.	$20,000,000
2022	MENA	Egypt	*Virtuo Finance SARL* (*https://www.dfc.gov/sites/default/files/media/documents/9000115597.pdf*) up to $50 million for DFC to participate in a green note purchase issued by Virtuo Finance S.A.R.L to on-lend to six solar projects in Egypt (300MW)	$50,000,000

Question. How many natural gas plants have you approved? Where? How many are in the pipeline?

Answer. Since 2021, DFC has approved support for one natural gas power plant, the CECA power plant in Sierra Leone, comprised of a $217 million loan and $50 million in political risk insurance. DFC has made a concerted effort to identify opportunities in the gas-to-power space, recognizing its ability to provide critical access to energy, and we remain open to reviewing proposals for new investments—but the lack of bankable gas-to-power projects in low-income markets suggests less private sector demand for these projects. Instead, countries are increasingly prioritizing renewable energy, given its declining costs and because countries are increasingly interested in bolstering energy security and balancing their trade deficits by reducing reliance on imported fuels.

Additionally, DFC provided a guaranty to support Polish energy company, PKN ORLEN, to manage price risks associated with LNG trading, which allowed the company to increase its access to non-Russian gas sources, including U.S. LNG. DFC also provided $400 million in insurance to ERU, a natural gas trading company, to support the diversification of Moldova's energy supply by enabling ERU to participate in gas tenders offered by local state-owned entities.

Question. Climate Mandate: Under the Biden administration, the DFC has prioritized zero carbon options over the previously agreed "all of the above" energy approach. Our Russian and Chinese adversaries don't constrain less-developed countries' energy choices or dictate how they should develop their energy sectors.

Are you concerned that such a strict approach undermines zero carbon and our strategic goals in the long-run by pushing less-developed countries to embrace Russian and Chinese energy options? If not, why not?

Answer. DFC's work is responsive to private sector demand, and the private sector will not pursue projects that are not commercially viable. A key predictor of commercial viability is a project's alignment with the needs of the local market from a technical and commercial point of view. By meeting the needs of local markets, DFC is positioning itself as a preferred partner and providing a higher-quality alternative to the investments offered by authoritarian regimes like the PRC.

At the same time, DFC remains open to supporting any type of energy project where there is a clear need and a strong investment case. We can support strategic projects in the gas sector, nuclear power or other industries that help ensure energy security, deliver strong developmental impacts or contribute to key geostrategic goals. DFC does not mandate or require energy projects to be of a specific type and we evaluate projects against multiple criteria on a case-by-case basis.

Question. Is the DFC subject to the Biden administration's International Energy Engagement Guidance? If so, please describe how you implement the guidance in considering projects for DFC support?

Answer. DFC is subject to the requirements of Executive Order 14008, Tackling the Climate Crisis at Home and Abroad. DFC is in regular contact with interagency partners to coordinate and ensure alignment with the U.S. Government's foreign policy strategy, and support provided by DFC follows the approval processes established by the Corporation's governance frame. DFC remains open to supporting strategic energy projects across a diverse set of technologies that help deliver strong developmental impact or contribute to key geostrategic goals. It considers projects against several different criteria on a case-by-case basis.

Question. During the hearing on October 4, 2023, I believe you stated that, pursuant to Administration policy, the DFC will not finance coal-based energy projects, even where local demand is strong for coal and U.S. financing could directly counter China.

Does the same policy apply to natural gas and mixed fuels?

Answer. Neither DFC nor its predecessor, OPIC, has received an application for a coal power project during the last 10 years. DFC has seen declining interest in support for these technologies, given the highly competitive pricing of renewable technologies, including many battery technologies developed in the U.S., as well as increased availability and the low cost of gas.

DFC remains open to considering highly strategic projects across energy sources and has preserved the ability to support natural gas projects that would greatly support economic growth in the poorest countries, as well as projects that advance U.S. national security interests.

Question. Requiring our partners to complete separate environmental reviews adds significant costs and time delays, putting U.S. proposals at a disadvantage over our low-standard competitors.

How could the DFC improve the approach to make its proposals more competitive?

Answer. While competitor states may move faster, this tends to result in projects that are of lower quality. Diligence and speed are both important. We continually evaluate our processes to optimize efficiency and are looking to streamline processes to shorten the length of our investment process. As we increase our staff and technical capacity, we anticipate a reduction in the amount of time required to diligence each project and are prioritizing this in our budget requests.

DFC closely assesses potential projects to ensure they are commercially viable, and in the case of a loan, that the entity has the capacity to repay under its terms. DFC projects are further screened and monitored for environmental and social risks and positive development impact and undergo Know Your Client due diligence. This thorough underwriting is vital to ensuring the long-term viability and success of the projects DFC supports, which is fundamental for development and for the alternative model we are putting forward.

Question. In April, I asked Administrator Power if there any earmarks or other statutory requirements that prevent USAID from supporting programming related to natural gas and nuclear energy. Her response is below: "The Clean Energy Directive definition adopted by the Department of State and USAID prohibits the use of Clean Energy Directive funding for natural gas assistance programming. Nuclear energy support is allowed under the definition. Natural gas work that is supported with funding outside of the clean energy earmark must be approved under the Administration's international energy assistance guidance. It is Administration policy not to provide U.S. Government financing to unabated natural gas projects, consistent with Executive Order 14008 on Tackling the Climate Crisis at Home and Abroad. This policy has exceptions in rare cases when there are compelling national security, geostrategic, or development/energy access benefits and no viable lower carbon alternatives accomplish the same goals

Does the DFC follow the same policy—that it will support natural gas projects "when there are compelling national security, geostrategic, or development/energy access benefits and no viable lower carbon alternatives accomplish the same goals"?

Answer. DFC remains open to considering highly strategic projects across diverse energy sources and has preserved the ability to support natural gas projects that would greatly support economic growth in the poorest countries, as well as projects that advance U.S. national security interests. We evaluate all projects across a range of criteria to ensure commercial viability, compliance with our investment policies, and alignment with U.S. foreign policy objectives.

We have seen demand for projects focused on energy security rise in the past year, especially in Eastern Europe and the Western Balkans, and we are working to respond to this demand. DFC approved a loan of $125 million to support the acquisition, rehabilitation, and expansion of the Elefsina Shipyard in Greece, which intends to provide shipping services for energy-sector vessels and other commercial ships.

In least developed countries with low levels of electrification, DFC is supporting natural gas projects to improve energy access. For example, in Sierra Leone, DFC provided a $217 million loan and $50 million in insurance for a 103 MW thermal power plant which will double operating power generation for one of the world's poorest countries.

Question. What constitutes a compelling national security or geostrategic benefit?

Answer. DFC looks to the State Department for foreign policy guidance and consults frequently with the interagency both in how we source and review projects.

Question. In addition, if there is a compelling national security, geostrategic, or development/energy access benefit but there is a viable lower carbon alternative at a higher cost, what is the DFC's policy in that situation? Will the DFC prioritize a higher cost but lower carbon alternative over the other criteria?

Answer. DFC makes investments based on interest from private sector entities who seek the Corporation's support for specific proposals. DFC then assesses the viability of each proposal and its alignment with our investment criteria to determine whether DFC can support it. It assesses alternative options to specific projects as part of environmental and social due diligence, but because of the stage at which the Corporation usually provides financing, it is generally not positioned to propose alternative projects to potential clients in the event our investment teams determine that a project does not warrant additional consideration.

Question. Project on Global Infrastructure and Investment (PGI): How does PGII interact with the DFC? Please answer comprehensively and provide actual examples.

Answer. DFC is a critical component of the U.S.G.'s approach to PGI. DFC committed $7.4 billion in transactions in FY 2022, of which nearly 70 percent ($5.1 billion) contributed towards the U.S. PGI total. DFC committed $9.3 billion in FY 2023, of which nearly 90 percent—$8.1 billion—contributed towards the U.S. PGI total. In practice, DFC projects often anchor PGI's focus on transformative economic corridors. For example, amongst the G7 countries, the United States is focusing on developing the Lobito/Trans-Africa Corridor. As a part of this, the DFC is currently performing due diligence for a potential financing package of $250 million to finance the Lobito Atlantic Railway Corridor—an open access rail line from Lobito Port in Angola to the DRC border. DFC's envisioned future organizational alignment around specific sectors—energy, infrastructure and critical minerals, small business support, food and agribusiness, etc.—align well with PGI's core objectives and focus pillars and will facilitate the continued alignment of DFC's work with the USG's PGI agenda. Specific examples from FY 2023 include the following key investments:

- *Strengthening transportation infrastructure in Sri Lanka:* A $553 million loan to Colombo West International Terminal Private Limited (CWIT) to support the development and construction of the West Container Terminal, a deep-water container terminal at the Port of Colombo. This project is a marquee example of how DFC advances a more strategic and economically sound approach to infrastructure development in contrast to strategic competitors like the PRC. The PRC sponsored a $1.2 billion deep water port—Hambantota—100 miles south of DFC's investment that was marred by inflated costs, misjudged demand, and a politically influenced unsuitable location. Unable to repay its debt, Sri Lanka was obligated to give the PRC a controlling equity stake and a 99-year lease for Hambantota. By contrast, the DFC is investing in a private sector consortium with strong local expertise and in a project that has strong commercial economics, will create jobs, expand shipping capacity in the region, and will further U.S. foreign policy, helping to connect India and its South Asia neighbors to one of the few natural deep-water ports in the region.
- *The world's largest debt-for-nature swap in Ecuador:* DFC is providing $656 million in political risk insurance for the swap, which will provide over $1.1 billion in debt relief for Ecuador and will generate $450 million for marine conservation in the Galapagos Islands.

- *Bolstering clean energy manufacturing and diversifying critical supply chains in India:* A $425 million loan to TP Solar Limited, a wholly-owned subsidiary of Tata Power Renewable Energy Limited, will finance the construction and operation of a greenfield 4 gigawatt (GW) solar cell and 4 GW solar module manufacturing facility in India. This investment will support India's ambitious program to increase renewable energy generation while diversifying supply away from PRC dominance.
- *Improving port infrastructure in Greece:* A $125 million loan to support the acquisition, rehabilitation, and expansion of the Elefsina Shipyard in Greece, which intends to provide shipping services for energy-sector vessels and other commercial ships. This advances U.S. foreign policy and national security objectives by countering efforts by the PRC to purchase the shipyard and supports economic growth and employment in Greece.

Question. Is PGII coordinating all executive branch engagement on infrastructure development, and does it help source potential projects for DFC support? Please answer to the best of your understanding. A response that refers SFRC to the White House and State Department will not be considered responsive.

Answer. DFC has a robust pipeline of infrastructure projects that it has sourced over many years. Many marquee projects come from these years-long efforts. In addition, DFC works to vet potential additional projects referred by the PGI office at the Department of State.

Question. What is DFC's involvement in the economic corridors that PGII is announcing, such as the one recently announced at the G–20 in India?

Answer. DFC is currently conducting due diligence on an investment in Lobito Atlantic Railway in Angola. Pending the outcome of this diligence, this transaction would anchor the U.S. Government's envisioned Lobito/Trans Africa Corridor. Of the corridors announced at G20, DFC is only currently involved in conducting due diligence on investments along the proposed Lobito/Trans Africa Corridor.

Question. Promoting & Protecting Economic Freedom: In 2021, I wrote a letter to the DFC about its complementary missions of promoting and protecting economic freedom. Focusing on the latter, the letter said as follows:

> "It is in the strategic interests of the United States to *protect economic freedom* from encroachment by authoritarian regimes that seek to undermine or manipulate free markets for their own goals. This why the *BUILD Act* also includes a strategic mission to protect economic freedom and key U.S. national security interests by providing an alternative to state-directed investments by authoritarian governments . . . *The DFC must establish transparent policies, guidelines, and mechanisms to thoughtfully manage and balance these complementary missions. The outcome of such an approach should be a mix of investments—some that are primarily development-focused, and others that have a strategic focus on advancing defined U.S. foreign policy priorities through delivery of development finance.*" [italics added]

How has the DFC executed on a balance between development-focused projects and strategic projects?

Answer. Our current portfolio reflects pursuit of both mandates. The dual mandate that Congress imbued DFC with—to both advance our strategic goals and objectives and to ensure development impact—are mutually reinforcing. We do not feel that we need to balance one against the other, but that we can pursue both simultaneously. Pursuing economic development is in the strategic interests of the United States, because by doing so we are contributing to economic stability and economic development options that developing countries prefer over those of our strategic competitors.

Question. What projects can DFC point to that advance the national security interests of the United States, rather than purely being economic development projects?

Answer. DFC pursues projects that contribute both to economic development and are in the national security interests of the United States. Economic development and national security objectives are mutually reinforcing, with economic development leading to greater stability and providing a foundation for a vibrant private sector, both of which are strongly in the interests of the United States. Some DFC projects have very clear national security and foreign policy impacts. One example is DFC's support for Telstra/Digicel/EFA in Papua New Guinea. In this project, DFC is providing a $50 million guaranty to support a telecom network acquisition in the Indo-Pacific region ensuring a safe and secure mobile network upon its upgrade to

5G. DFC supported the bid alongside other regional partners including Australia and Japan. This financing will counter an unsolicited acquisition bid by a strategic competitor-owned company. This investment will improve security and performance and deliver affordable mobile voice and data services in the Pacific islands.

Question. Marou Chocolate: How did the DFC come to find out about the Marou Chocolate project? In other words, who brought the project to DFC?

Answer. After an initial introduction by the U.S. Consulate in Ho Chi Minh City, DFC's Lower Mekong office developed the relationship with Marou and structured the transaction after having spoken to their equity investor, Mekong Capital.

Question. Why was it determined that this company (Marou Chocolate Company Limited) needed U.S. Government financing? In other words, how did the DFC meet its "additionality" requirements in supporting this project, and what were the factors that precluded private sector investment?

Answer. Capital from the private market is not available under terms that the Company could viably support. Given the size of the debt required for the project and the Company's lack of real estate assets in Vietnam, the Company was unable to secure a loan of this size on the local market, and with the tenor and grace period that made project economics possible.

Question. What United States interests are served by supporting this project?

Answer. This project advances the developmental interests of the United States by spurring economic growth in a priority country (Vietnam) and in a priority region, (Southeast Asia). This project is aligned with Department of State and USAID country strategies.

Question. Changing the DFC's Mindset: What have you done to ensure DFC staff—including those who served at OPIC—are fulfilling Congress's intent for the DFC to take more risk in its investment portfolios? Please provide examples.

Answer. Over the past year, DFC has undertaken a thorough review of its strategic goals and objectives to ensure we are focused on achieving our *BUILD Act* mandates. We are now in the process of realigning our organization to ensure the strategy is implemented.

Our new organization will be aligned around key sectors, and leaders of the sectoral teams will be responsible for developing targets and objectives, as well as articulating risk appetite.

In parallel, we have also initiated a proactive, centralized, forward looking project pipeline management process, led by our Chief Operating Officer. This process involves both an annual business planning process and a quarterly business review, and helps ensure hands- on management of potential transactions in process and that priorities align with our risk appetite.

DFC's Exposure Management Committee, chaired by our Chief Risk Officer, conducts a regular review of our portfolio and CRO reporting helps ensure that DFC's Board of Directors is also apprised of DFC's risk posture.

In one indication that DFC is taking more risk, over the past year DFC transactions have required more subsidy (i.e., projected net cost to the Government) than in prior years. See below for a breakdown of program funds usage by fiscal year.

- FY 2020: program funds usage = $157.6M
- FY 2021: program funds usage = $302.5M
- FY 2022: program funds usage = $612.4M
- FY 2023: program funds usage = $622.1M

DFC's first priority is to implement its dual mandate to promote development and advance U.S. strategic interests by supporting commercial projects in often difficult market environments. Our efforts to implement this mandate draw us into ventures that are risky, and DFC's increased risk appetite is reflected through its evolving portfolio and increasingly large commitments. The examples below are reflective of DFC's larger commitment sizes, or work in challenging markets:

- Providing a $500 million loan to First Solar in India to help diversify supply chains for solar photovoltaic modules, one that the PRC currently dominates;
- Providing a $553 million loan to Colombo West International Terminal Private Limited to construct a deep sea port in Sri Lanka, despite the weak fiscal position of the Sri Lankan Government;
- Providing a $150 million loan to Twigg Mining, a graphite mining operation in Mozambique and managing environmental risks associated with the project in

order to ensure access to resources necessary to support manufacturing of batteries to support electric vehicles; and

- Committing $386 in new transactions in Ukraine over the last year across a variety of sectors and all of its lines of business, including through equity investments, political risk insurance, debt financing, and technical assistance.

Question. If personnel are not adapting this intent, do you have any recourse?

Answer. Staff are adapting to this intent as articulated in the previous question and highlighted commitments. Through a combination of annual planning, emphasis on more proactive business development efforts, and pipeline management, we will continue to evolve the portfolio and ensure we are fulfilling the full intent of the *BUILD Act*.

Question. DFC Front Office: Some private sector interlocutors have expressed concern that the front office within DFC does not have enough power vis-à-vis the permanent bureaucracy to advance priorities and has unusually limited involvement in investment decisions.

What is your view on the role of your office within the DFC? Do you agree with the feedback above? In your view, are there changes that need to be made to strengthen the role of DFC leadership?

Answer. The role of the Chief Executive Officer is to set the strategic direction of DFC and ensure that the organization has the guidance, resources, and support to execute on its dual mandate to achieve development impact and advance U.S. foreign policy interests. Since being confirmed as DFC's CEO in early 2022, I have taken several steps to fulfill those responsibilities. For example, over the past year DFC has undertaken a comprehensive review to refine its strategy and align its efforts to its strategic sector priorities. Through staff and stakeholder engagements, portfolio analysis, and benchmarking, DFC identified its priority sectors as agriculture, energy, health, infrastructure, investment funds, and small business and financial services. This process, which will realign DFC's investment teams into these sectors, clarifies what DFC's enduring priorities are and where we seek to grow to both internal and external stakeholders. In addition, I have directed my team to initiate a new annual planning process that will analyze market needs by sector and set goals for each team, which will inform how resources will support each sector's growth and broader organizational objectives.

I have also used my role to marshal resources across the organization to meet urgent priorities, such as support for Ukraine following Russia's illegal invasion. DFC has committed more than $425 million in new transactions in Ukraine since the start of the war across a variety of sectors and all of its lines of business, including equity investments, political risk insurance, debt financing, and technical assistance. I have personally traveled to Ukraine multiple times and dedicated staff to work closely with the rest of the interagency to ensure DFC is leveraging its resources to contribute to broader U.S. Government efforts to support the Ukrainian people.

Lastly, at my direction and led by the Chief Operating Officer, we have initiated a proactive, centralized, forward looking project pipeline management process that helps ensure timely awareness and management of potential transactions to ensure alignment with U.S. priorities.

Question. If DFC is considering a highly strategic project that aligns with U.S. foreign policy and national security priorities, but an internal DFC committee raises concern about environmental or other issues, what happens to the project? What is your role and the role of the Deputy CEO in these cases?

Answer. DFC performs an environmental and social assessment for each project under consideration. This assessment follows the commitments and standards captured in the DFC's Environmental and Social Policy and Procedures (ESPP) which adopts the IFC Performance Standards and the World Bank's Environmental, Health and Safety Guidelines. Every project is screened for its eligibility against DFC's Categorical Prohibitions captured in the ESPP. If any categorically prohibited activities are surfaced during the analysis of a project, DFC cannot proceed to support the project an environmental and social clearance cannot be issued. If a project is considered eligible, DFC assesses the project's environmental and social risks and the client's ability to avoid, mitigate, manage, and monitor the identified environmental and social impacts according to the ESPP requirements. This process is documented in the internal environmental and social clearance document and the requirements mentioned above are incorporated into DFC legal agreements with the project sponsor. In cases where issues are raised by an internal approval committee that have not been considered through the assessment of the Project, DFC analysts would revisit the issue raised and update the assessment, documentation, and legal conditions as warranted.

The CEO/Deputy CEO set strategic priorities and goals for the organizations and ensure high-level oversight and management to ensure resources are aligned to them. We maintain oversight over the project review process, and project teams make leadership aware of potential issues during the process.

Question. Indo-Pacific Energy Projects: Please provide a breakdown by energy source of the energy projects DFC has supported in the Indo-Pacific since the Biden administration took office.

Answer.

Year	Project	Description	Energy Source	Country	Value
2023	TP Solar Limited	Loan to finance the construction of a 4GW solar cell and module manufacturing facility	Solar power manufacturing	India	$425,000,000
2023	SAEL Industries Limited	Equity investment in solar energy and waste-to-energy power generation company	Solar power and biomass/ waste	India	Up to $50,000,000
2022	HDF Energy	Technical assistance to support green hydrogen and solar mini-grids	Solar power and green hydrogen	Indonesia	$600,000
2022	Orb Energy	Financing for small & medium enterprises to install commercial & industrial solar power solutions	Solar power	India	$20,000,000
2022	First Solar India Solar Ventures	Loan to construct a 3.3GW solar module manufacturing facility	Solar power manufacturing	India	$500,000,000
2021	Punjab Renewable Energy Systems	Construction of biomass briquette plants	Biomass	India	$10,000,000

Question. People's Republic of China (PRC): Are there any projects since the Biden administration took office where DFC support, either on its own or in partnership with other countries, has blocked a PRC investment or prevented an asset from being acquired by the PRC? Please list *every* project that meets this criterion and provide explanations.

Answer. The following projects are responsive to your question:

- Turkey "Ceyhan" (FY23): A loan of $550 million to Ceyhan Polipropilen Üretim Anonim Şirketi will finance the development of a polypropylene production plant that will primarily produce durable products using highly efficient Honeywell UOP technologies to greatly reduce carbon intensity. The facility will serve as an anchor for high-skilled employment and workforce development. DFC financing countered PRC interest in the project.
- Ecuador "Yilport" (FY23): A $150 million loan to finance the expansion and modernization of the Puerto Bolivar container port. DFC is directly countering financing alternatives from authoritarian government-controlled banks seeking to finance the project if DFC is unwilling or unable to do so. This project is expected to significantly increase the port's export volumes, create up to 1,250 direct and indirect jobs, attract up to $750 million in foreign direct investment, and generate over $100 million in revenue transfers to the local municipality.

- Greece "Onex Elefsis Shipyards" (FY23): A $125 million loan to support the acquisition, rehabilitation, and expansion of the Elefsina Shipyard in Greece, which intends to provide shipping services for energy-sector vessels and other commercial ships. This advances U.S. foreign policy and national security objectives by countering efforts by the PRC to purchase the shipyard and supports economic growth and employment in Greece.
- Sri Lanka "Colombo West International Terminal" (FY23): $553 million loan to support development, construction, and operation of a deep-water container terminal in the Port of Colombo—a contrast to the poorly constructed, poorly maintained, PRC-built terminal on the other side of the port.
- Papua New Guinea "Telstra" (FY22): A $50 million guaranty to support Australia company Telstra's acquisition of Digicel Pacific's telecom network and assets, thereby ensuring the continued provision of open, safe, and secure mobile service to about 60 percent of Pacific telecom users, in partnership with our Japanese (JBIC) and Australian (EFA) partners.
- Sierra Leone "CECA SL Generation Limited" (FY22/21): A $217 million loan to CECA SL Generation Limited in FY21 and a $50 million insurance contract in FY22 to support the development, construction, and operation of an approximately 83.5-megawatt combined cycle thermal power plant and associated infrastructure. This project displaced a handful of possible power projects with authoritarian government participation that the Government of Sierra Leone decided not to pursue. Generation capacity is expected to increase by about 75 percent and provide hundreds of gigawatt hours of power per year to improve access to reliable energy supply for homes, businesses, and health facilities.
- Brazil "TechMet" (FY22): A $30 million equity investment into TechMet Limited, a U.S. aligned critical minerals mining platform, to support its Brazilian nickel and cobalt mining project. TechMet is committed to securing U.S. and allied access to critical minerals and diversifying the sourcing of critical minerals away from authoritarian governments. This investment followed an initial $25 million equity investment in 2020 that allowed TechMet to support activities to pilot work at the Brazilian nickel mine in preparation for scaling up the project.
- Brazil "Smart Rio" (FY21): A $267 million loan guaranty to Smart Rio that is supporting smart city and digital infrastructure solutions to digitize essential services by modernizing, installing, and maintaining public lighting systems, Wi-Fi access points, traffic management modules, and sewage monitoring sensors—while advancing inclusive growth for Rio De Janeiro's residents by serving lower-income neighborhoods. Strategic competitor-based enterprises are increasingly active in smart city and digital infrastructure solutions internationally, and this project's preference for U.S. financing demonstrates the power of our values-based partnership model.

RESPONSES OF MR. SCOTT NATHAN TO QUESTIONS
SUBMITTED BY SENATOR JEANNE SHAHEEN

Question. Please explain how current DFC investments in Ukraine are connected to and benefit America's economy and national security interests. What is the DFC's role in supporting U.S. companies invested in Ukraine? What is the long-term vision for U.S. investment in Ukraine?

Answer. DFC support for the Ukrainian private sector is helping to bolster the strength and resilience of the country. Its economic health and stability is critical to the war effort and its defense against further Russian aggression. It is in also in our strategic and economic interest to mitigate the global effects of Russia's continued war of aggression. Global food security has been adversely affected by the war, and DFC's investments in this sector, both in Ukraine, the region, and beyond, are helping mitigate the impact of the war.

DFC is actively offering the full range of its tools in Ukraine and in FY 2023 committed $410 million in new projects in the country. Its exposure in Ukraine is now more than $1 billion. DFC is in discussions with U.S. companies regarding opportunities to de-risk investments in the country even while the conflict is ongoing. As we look ahead to Ukraine's post-war recovery and reconstruction, the role of the U.S. private sector will be key to addressing the daunting needs and DFC anticipates an increased demand for debt financing and political risk insurance from American companies. Toward this end, DFC has had discussions with U.S. companies interested in contributing to this critical period of long-term rebuilding and welcomes other businesses to do the same.

RESPONSES OF MR. SCOTT NATHAN TO QUESTIONS SUBMITTED BY SENATOR TED CRUZ

Question. Israel and Territories Administrated by Israel. In June 2021, DFC announced the launch of the Joint Investment for Peace Initiative (JIPI), which the Corporation described in a press release as "a new program that will increase cooperation between Israelis and Palestinians by promoting investments and financial tools that advance the development of the Palestinian private sector economy" which "aims to attract private investment that promotes Palestinian economic development; increase economic cooperation between Palestinians and Israelis and between Palestinians and Americans; and contribute to greater integration of the Palestinian economy into the international rules-based business system." JIPI was created pursuant to the Middle East Partnership for Peace Act of 2020 (MEPPA), which authorized $250 million for DFC and U.S. Agency for International Development (USAID) to implement programs over a 5-year period.

The Biden administration has repeatedly, secretly issued guidelines prohibiting funding for projects involving Israeli individuals and entities in territories that came under Israeli administration in June 1967. For example, recently Department of State issued written guidance prohibiting U.S.-Israel binational foundations from funding joint scientific and technological cooperation with such individuals and entities. DFC officials have indicated that DFC is also secretly implementing guidance limiting support for projects involving Israeli individuals and entities in territories that came under Israeli administration after June 1967, and have cited "the applicability of existing U.S. foreign policy and agreements with host and counterpart governments when determining its ability to provide support."

Answer. DFC is not secretly issuing or implementing guidance limiting support for such projects, nor am I aware that any DFC officials have indicated otherwise. Relevant, applicable U.S. foreign policy and bilateral agreements are public and described below.

Question. How much funding has DFC currently invested under the parameters of MEPPA?

Answer. MEPPA authorizes the DFC CEO to establish the Joint Investment for Peace Initiative (JIPI, or the Initiative), which is a "program to provide investments in, and support to, entities that carry out projects that contribute to the development of the Palestinian private sector economy in the West Bank and Gaza" (MEPPA, Section 8005(a)). The Initiative is the only DFC program under MEPPA. To date, DFC has invested $3.5 million in technical assistance through the Initiative, which was disbursed to support the continued operations of the existing Middle East Investment Initiative Loan Guaranty Facility 3 project. An additional $10 million loan to Ritz Leasing, an electric vehicle and infrastructure company in the West Bank, was committed at the end of FY23.

Question. How much funding has DFC currently invested under the parameters of the Initiative?

Answer. The Initiative is the only DFC program under MEPPA. MEPPA authorizes the DFC CEO to establish the Joint Investment for Peace Initiative (JIPI, or the Initiative), which is a "program to provide investments in, and support to, entities that carry out projects that contribute to the development of the Palestinian private sector economy in the West Bank and Gaza" (MEPPA, Section 8005(a)). The Initiative is the only DFC program under MEPPA. To date, DFC has invested $3.5 million in technical assistance through the Initiative, which was disbursed to support the continued operations of the existing Middle East Investment Initiative Loan Guaranty Facility 3 project. An additional $10 million loan to Ritz Leasing, an electric vehicle and infrastructure company in the West Bank, was committed at the end of FY23.

Question. Are there viable applicants that meet the baseline standards under DFC's mandates pursuant to MEPPA? If so, please list and describe them.

Answer. To date, DFC has not received any applications from Israeli individuals located in, or Israeli entities located in, territories that came under Israeli administration after June 1967. However, DFC has received applications from other applicants that satisfy DFC's threshold eligibility requirements under MEPPA. For reasons of business confidentiality, DFC does not publicly share information on applicants it has not yet committed to support. Applicants' businesses span sectors and market segments that include, but are not limited to, small businesses, agriculture, information and communications technology, energy, and tourism. DFC evaluates each application for support in accordance with our threshold eligibility requirements and our other underwriting standards. This evaluation includes an analysis of the project's financial viability as well as the project's developmental impact, compliance with DFC's investment policies, and alignment with foreign policy priorities. Please see the DFC partner guide on DFC's website for more information, including especially pages 6–8.

Question. Are there viable applicants that meet the baseline standards under DFC's goals for JIPI? If so, please list and describe them.

Answer. The Initiative is the only DFC program under MEPPA. To date, DFC has not received any applications from Israeli individuals located in, or Israeli entities located in, territories that came under Israeli administration after June 1967. However, DFC has received applications from other applicants that satisfy DFC's threshold eligibility requirements under MEPPA. For reasons of business confidentiality, DFC does not publicly share information on applicants it has not yet committed to support. Applicants' businesses span sectors and market segments that include, but are not limited to, small businesses, agriculture, information and communications technology, energy, and tourism. DFC evaluates each application for support in accordance with our threshold eligibility requirements and our other underwriting standards. This evaluation includes an analysis of the project's financial viability as well as the project's developmental impact, compliance with DFC's investment policies, and alignment with foreign policy priorities. Please see the DFC partner guide on DFC's website for more information, including especially pages 6–8.

Question. How are DFC's investment regulations affected by the State Department guidance prohibiting U.S.-Israel binational foundations from funding joint scientific and technological cooperation with Israeli entities in territories that came under Israeli administration in June 1967?

Answer. To date, DFC has not received any applications from Israeli individuals located in, or Israeli entities located in, territories that came under Israeli administration after June 1967. DFC operates under the foreign policy guidance of the State Department. Regarding the binational foundations guidance that the State Department issued earlier this year with respect to areas within such territories that remain subject to final status negotiations, the underlying rationale that supports that policy would be considered by DFC when determining whether applications it receives for projects in such areas are aligned with U.S. foreign policy.

Question. Are there any geographic restrictions on where DFC invests its funds under MEPPA parameters?

Answer. Yes. As noted in the response to the first question, prior, the Initiative's geographic scope is limited to the West Bank and Gaza. Note, however, that DFC's statutory authority under the *BUILD Act* to support projects located in the West Bank and Gaza does not extend to areas that remain subject to final status negotiations. See response for geographical restrictions under the West Bank and Gaza IIAs (as defined below).

Question. Are there any agreements between DFC and relevant Israeli authorities regarding geographic distinctions for funding Israeli entities under MEPPA parameters?

Answer. The *BUILD Act* requires a bilateral agreement (or "Investment Incentive Agreement" or "IIA") to be in place between the United States and a host government as a prerequisite for DFC supporting projects in the government's jurisdiction (*BUILD Act*, Section 9631(a)). In 1994, the U.S. Government concluded an IIA with the Government of Israel and a separate IIA with the Palestinian Liberation Organization (for the benefit of the Palestinian Authority), each with respect to OPIC (now DFC) projects in specified areas as set forth under the Oslo Accords. These IIAs are available on DFC's website. It is DFC's understanding (based on its consultations with the State Department about the scope of the Oslo Accords as applied to the provision of DFC investment support) that geographic areas that remain subject to final status negotiations are not included in the areas for which DFC may provide support under these IIAs. These IIAs do not differentiate between Israeli and non-Israeli entities. Therefore, DFC lacks legal authorization to support projects in geographic areas that remain subject to final status negotiations, regardless of the nationality or jurisdiction of organization of the party seeking support.

Question. Please list and describe all existing U.S. foreign policy considerations that DFC uses in evaluating projects pursuant that involve Israeli individuals and entities in territories that came under Israeli administration after June 1967 for financing under MEPPA.

Answer. To date, DFC has not received any applications from Israeli individuals located in, or Israeli entities located in, territories that came under Israeli administration after June 1967. DFC is not a policy-making institution. We consult with the State Department on all matters that constitute U.S. foreign policy, as contemplated by the *BUILD Act*, and would refer you to the State Department for such matters.

To date, DFC has not received any applications from Israeli individuals located in, or Israeli entities located in, territories that came under Israeli administration after June 1967. DFC operates under the foreign policy guidance of the State Department. Regarding the binational foundations guidance that the State Department issued earlier this year with respect to areas within such territories that remain subject to final status negotiations, the underlying rationale that supports that policy would be considered by DFC when determining whether applications it receives for projects in such areas are aligned with U.S. foreign policy.

Question. Please list and describe all existing U.S. foreign policy considerations that DFC uses in evaluating projects pursuant that involve Israeli individuals and entities in territories that came under Israeli administration after June 1967 for financing specifically under JIPI.

Answer. The Initiative is the only DFC program under MEPPA. Please see response above.

Question. Please list and describe all agreements with host and counterpart governments that DFC uses in evaluating projects that involve Israeli individuals and entities in territories that came under Israeli administration after June 1967 for financing under MEPPA.

Answer. The *BUILD Act* requires a bilateral agreement (or "Investment Incentive Agreement" or "IIA") to be in place between the United States and a host government as a prerequisite for DFC supporting projects in the government's jurisdiction (*BUILD Act*, Section 9631(a)). In 1994, the U.S. Government concluded an IIA with the Government of Israel and a separate IIA with the Palestinian Liberation Organization (for the benefit of the Palestinian Authority), each with respect to OPIC (now DFC) projects in specified areas as set forth under the Oslo Accords. These IIAs are available on DFC's website. It is DFC's understanding (based on its consultations with the State Department about the scope of the Oslo Accords as applied to the provision of DFC investment support) that geographic areas that remain subject to final status negotiations are not included in the areas for which DFC may provide support under these IIAs. These IIAs do not differentiate between Israeli and non-Israeli entities. Therefore, DFC lacks legal authorization to support projects in geographic areas that remain subject to final status negotiations, regardless of the nationality or jurisdiction of organization of the party seeking support.

Question. Please list and describe all agreements with host and counterpart governments that DFC uses in evaluating projects that involve Israeli individuals and entities in territories that came under Israeli administration after June 1967 for financing specifically under JIPI.

Answer. The Initiative is the only DFC program under MEPPA. The *BUILD Act* requires a bilateral agreement (or "Investment Incentive Agreement" or "IIA") to be in place between the United States and a host government as a prerequisite for DFC supporting projects in the government's jurisdiction (*BUILD Act*, Section 9631(a)). In 1994, the U.S. Government concluded an IIA with the Government of Israel and a separate IIA with the Palestinian Liberation Organization (for the benefit of the Palestinian Authority), each with respect to OPIC (now DFC) projects in specified areas as set forth under the Oslo Accords. These IIAs are available on DFC's website. It is DFC's understanding (based on its consultations with the State Department about the scope of the Oslo Accords as applied to the provision of DFC investment support) that geographic areas that remain subject to final status negotiations are not included in the areas for which DFC may provide support under these IIAs. These IIAs do not differentiate between Israeli and non-Israeli entities. Therefore, DFC lacks legal authorization to support projects in geographic areas that remain subject to final status negotiations, regardless of the nationality or jurisdiction of organization of the party seeking support.

Question. Is DFC precluded from supporting projects that involve Israeli individuals and entities in territories that came under Israeli administration after June 1967, even if those projects meet all other DFC statutory mandates, including advancing the development of the Palestinian private sector economy?

Response: To date, DFC has not received any applications from Israeli individuals located in, or Israeli entities located in, territories that came under Israeli administration after June 1967. Please see response above, for a description of the geographic restrictions that apply to DFC support, which relate to the location of the project. These restrictions do not relate to the nationality or jurisdiction of organization of the party seeking support.

To date, DFC has not received any applications from Israeli individuals located in, or Israeli entities located in, territories that came under Israeli administration after June 1967. DFC operates under the foreign policy guidance of the State Department. Regarding the binational foundations guidance that the State Department issued earlier this year with respect to areas within such territories that remain subject to final status negotiations, the underlying rationale that supports that policy would be considered by DFC when determining whether applications it receives for projects in such areas are aligned with U.S. foreign policy.

Question. Three Seas. The Three Seas Initiative Investment Fund (3SIIF) is an investment vehicle to finance key infrastructure projects in the Three Seas region in support of the Three Seas Initiative (3SI), and specifically to invest in transport, energy, and digital infrastructure on the north-south axis in the Three Seas countries. In February 2020 the United States announced a commitment of up to $1 billion for 3SI, and the State Department subsequently approved a $300 million investment into 3SIIF, first in December 2020 and then in June 2022.

Meanwhile, U.S.-origin liquefied natural gas (LNG) emerged as a critical energy source in the 3SI region to insulate American allies from Russian energy blackmail. In 2020 DFC changed its Environmental and Social Policy and Procedures to allow the funding of projects involving nuclear power, a decision that also has significant potential implications for the 3SI region.

How much of money has been disbursed to the 3SIIF?

Answer. DFC has a financial agreement with the Three Seas Initiative Investment Fund (3SIIF) to provide up to $300 million in debt financing. Under the terms of the agreement, the 3SIIF can draw on the financing to support eligible projects. It has not done so yet. We look forward to supporting 3SIIF projects that meet DFC eligibility criteria, including as laid out in the *European Energy Security and Diversification Act*.

Question. When does DFC anticipate delivering the full $300 million investment in 3SIIF?

Answer. Under the terms of its agreement, the Three Seas Initiative Investment Fund is responsible for sourcing and reviewing potential projects that may be eligible for DFC financing. It must then draw on the financing. It has not done so yet. DFC remains dedicated to working with the Three Seas Initiative Investment Fund to finance potential projects while also looking for opportunities to make direct investments within the Three Seas region.

Question. Please describe more generally how DFC is working with 3SIIF and its member states?

Answer. In addition to its support for the Three Seas Initiative Investment Fund (3SIIF), DFC is supportive of the goals of the Three Seas Initiative and its member states, especially in light of Russia's continued war of aggression in Ukraine. DFC's $300 million in financing for 3SIIF has a particular focus on energy security and diversification projects, which are vital to the region's future. This focus is in line with DFC's authorities in the region, as laid out in the *European Energy Security and Diversification Act*. In addition, DFC looks for opportunities to make direct investments in the region, as with our recent $125 million loan to support the ONEX Elefsis Shipyards port project in Greece.

Question. What 3SI projects is DFC currently funding?

Answer. Under the terms of DFC's agreement to provide $300 million in financing to the Three Seas Initiative Investment Fund (3SIIF), the Fund can draw on the financing to support specific projects. 3SIIF has not yet drawn on the financing. We look forward to supporting 3SIIF projects that meet DFC eligibility criteria, including as laid out in the *European Energy Security and Diversification Act*.

Question. What 3SI projects is DFC considering for funding?

Answer. DFC is working with the Three Seas Initiative Investment Fund to review potential projects for support, per the terms of its agreement and in line with DFC's authorities.

Question. What has DFC done since 2020 to support the development of LNG infrastructure in the 3SI region? What are/is DFC currently doing?

Answer. In 2023, DFC approved a $125 million loan to support the acquisition, rehabilitation, and upgrade of Elefsis Shipyards in Greece, providing a major expansion of Greek ship repair and maintenance capacity at a time of high traffic from vessels transporting Liquefied Natural Gas (LNG). Over half of the shipyard's capacity will be used for repair and maintenance of LNG vessels, which help replace Russian-supplied natural gas in Southeastern Europe. The Project will also ensure that the shipyard remains controlled by an investor aligned with U.S. interests and counters a potential acquisition by entities affiliated with the Government of the People's Republic of China. DFC also provided a guaranty to support Polish energy company, PKN ORLEN, to manage price risks associated with LNG trading, which allowed the company to increase its access to non-Russian gas sources, including U.S. LNG. DFC also provided $400 million in insurance to ERU, a natural gas trading company, to support the diversification of Moldova's energy supply by enabling ERU to participate in gas tenders offered by local state-owned entities. (Note—these investments are not part of the 3SIIF.)

Question. What has DFC done since 2020 to support the development of civilian nuclear infrastructure in the 3SI region? What is DFC they currently doing?

Answer. DFC has been closely tracking developments in nuclear energy in the 3SI region, including through direct discussions with private sector and government stakeholders working in this sector. DFC has issued two letters of interest (LOIs) for small modular reactor (SMR) nuclear power plants in the region—one with RoPower in Romania (using NuScale technology) and one with ORLEN Green Synthos in Poland (using GE/Hitachi technology). DFC is a participant in regular U.S. Government interagency working groups and engages regularly with sponsors of the projects listed above and with other parties interested in the development of nuclear energy in the region. (Note—these investments are not part of the 3SIIF.)

RESPONSES OF MR. SCOTT NATHAN TO ADDITIONAL QUESTIONS
SUBMITTED BY SENATOR TED CRUZ

Question. Israel and Territories Administered by Israel: In a previous round of QFRs, I asked you if there are if there are "any geographic restrictions on where DFC invests its funds under MEPPA parameters?" You answered that "DFC's statutory authority under the *BUILD Act* to support projects located in the West Bank and Gaza does not extend to areas that remain subject to final status negotiations."

I also asked you if there are "any agreements between DFC and relevant Israeli authorities regarding geographic distinctions for funding Israeli entities under MEPPA parameters?" You noted that "In 1994, the U.S. Government concluded an [Investment Incentive Agreement (IIA)] with the Government of Israel and a separate IIA with the Palestinian Liberation Organization (for the benefit of the Palestinian Authority), each with respect to OPIC (now DFC) projects in specified areas as set forth under the Oslo Accords." The Oslo Accords divided the West Bank into three administrative divisions, Areas A, B, and C. You further answered that "geographic areas that remain subject to final status negotiations are not included in the areas for which DFC may provide support under these IIAs" and that "DFC lacks legal authorization to support projects in geographic areas that remain subject to final status negotiations, regardless of the nationality or jurisdiction of organization of the party seeking support."

What are the areas in Israel, the West Bank, or the Gaza Strip that DFC considers subject to final status negotiations for the purposes of providing support under relevant IIAs?

Answer. The areas that are subject to permanent status negotiations, as referenced in the applicable Investment Incentive Agreements, are enumerated in Article V, "TRANSITIONAL PERIOD AND PERMANENT STATUS NEGOTIATIONS" of Oslo I. These specifically include "Jerusalem" and "settlements." DFC is able to invest in Areas A, B and C, except to the extent that a project is located within an area subject to permanent status negotiations as described above. DFC operates under the foreign policy guidance of the State Department. For additional clarification with respect to specific areas delineated in U.S. treaties such as the Oslo Accords, we refer you to the State Department.

Question. Does DFC consider any part of Jerusalem to be subject to final status negotiations for the purposes of providing support under relevant IIAs?

Answer. The areas that are subject to permanent status negotiations, as referenced in the applicable Investment Incentive Agreements, are enumerated in Article V, "TRANSITIONAL PERIOD AND PERMANENT STATUS NEGOTIATIONS" of Oslo I. These specifically include "Jerusalem" and "settlements." DFC is able to invest in Areas A, B and C, except to the extent that a project is located within an area subject to permanent status negotiations as described above. DFC operates under the foreign policy guidance of the State Department. For additional clarification with respect to specific areas delineated in U.S. treaties such as the Oslo Accords, we refer you to the State Department.

Question. Does DFC consider Area A to be subject to final status negotiations for the purposes of providing support under relevant IIAs?

Answer. The areas that are subject to permanent status negotiations, as referenced in the applicable Investment Incentive Agreements, are enumerated in Article V, "TRANSITIONAL PERIOD AND PERMANENT STATUS NEGOTIATIONS" of Oslo I. These specifically include "Jerusalem" and "settlements." DFC is able to invest in Areas A, B and C, except to the extent that a project is located within an area subject to permanent status negotiations as described above. DFC operates under the foreign policy guidance of the State Department. For additional clarification with respect to specific areas delineated in U.S. treaties such as the Oslo Accords, we refer you to the State Department.

Question. Does DFC consider Area B to be subject to final status negotiations for the purposes of providing support under relevant IIAs?

Answer. The areas that are subject to permanent status negotiations, as referenced in the applicable Investment Incentive Agreements, are enumerated in Article V, "TRANSITIONAL PERIOD AND PERMANENT STATUS NEGOTIATIONS" of Oslo I. These specifically include "Jerusalem" and "settlements." DFC is able to invest in Areas A, B and C, except to the extent that a project is located within an area subject to permanent status negotiations as described above. DFC operates under the foreign policy guidance of the State Department. For additional clarification with respect to specific areas delineated in U.S. treaties such as the Oslo Accords, we refer you to the State Department.

Question. Does DFC consider Area C to be subject to final status negotiations for the purposes of providing support under relevant IIAs?

Answer. The areas that are subject to permanent status negotiations, as referenced in the applicable Investment Incentive Agreements, are enumerated in Article V, "TRANSITIONAL PERIOD AND PERMANENT STATUS NEGOTIATIONS" of Oslo I. These specifically include "Jerusalem" and "settlements." DFC is able to invest in Areas A, B and C, except to the extent that a project is located within an area subject to permanent status negotiations as described above. DFC operates under the foreign policy guidance of the State Department. For additional clarification with respect to specific areas delineated in U.S. treaties such as the Oslo Accords, we refer you to the State Department.

Question. Three Seas: In a previous round of QFRs, I asked you several questions about the Three Seas Initiative Investment Fund (3SIIF). The Fund is an investment vehicle to finance key infrastructure projects in the Three Seas region in support of the Three Seas Initiative (3SI), and specifically to invest in transport, energy, and digital infrastructure on the north-south axis in the Three Seas countries. In February 2020 the United States announced a commitment of up to $1 billion for 3SI, and the State Department subsequently approved a $300 million investment into 3SIIF, first in December 2020 and then in June 2022.

You responded several times that DFC has an agreement to provide 3SIIF with $300 million and that no project has been approved to draw on the financing. You also described potentially relevant projects related to energy infrastructure, though not to transportation or digital infrastructure, which are also deeply relevant to economic development in the region.

In your understanding, is it still the policy of the United States that the U.S. is committed to providing up to $1 billion for 3SI?

Answer. On December 20, 2020, DFC's board of directors approved $300 million in financing for the Three Seas Initiative Investment Fund (3SIIF). DFC understands that 3SIIF is no longer raising additional capital. As is standard practice when DFC makes an investment in a fund, the fund manager, not DFC, is responsible for sourcing and pursuing projects. In addition to its $300 million commitment, DFC has also supported projects in countries that are part of the Three Seas Initiative. For example, DFC announced last year that it would provide a $500 million guarantee to enable the Polish energy company, PKN ORLEN, to effectively limit its commodity price risk and reduce liquidity constraints associated with sourcing natural gas from alternative suppliers, in line with the goal of diversifying the European energy supply. DFC also announced last year that it would provide a loan guaranty for Citi's 208 million Euro loan to Bulgartransgaz EAD. DFC's support will help countries diversify away from Russian gas supplies through the expansion of an underground gas storage capacity serving Bulgaria and southeastern Europe.

DFC also continues to discuss additional opportunities to further energy security and diversification in Central and Eastern Europe, in line with its authorities under the 2019 *European Energy Security and Diversification Act*.

Question. What do you understand to be the obstacles or challenges which have prevented any of the U.S. commitment from being made available for 3SIIF projects?

Answer. Per the terms of the financing agreement between DFC and the Three Seas Initiative Investment Fund, the fund must meet certain conditions before it can draw on DFC's $300 million in financing. These commitments are standard practice as part of any DFC investment and ensure U.S. Government funds are being used to support projects that meet DFC's due diligence standards. DFC looks forward to supporting 3SIIF projects that meet DFC eligibility criteria and are permitted under its statutory authorities.

Question. What efforts or projects are being pursued by DFC related to 3SI transportation infrastructure?

Answer. DFC's mandate is to invest in less developed countries, with the exception of projects that qualify under the 2019 *European Energy Security and Diversification Act*. All 3SI Member States are currently classified by the World Bank as high-income, except Bulgaria, which is classified as an upper middle-income country. In Bulgaria, DFC funding for 3SIIF could also support transportation and other types of critical infrastructure.

For this reason, DFC's commitment to the 3SIIF is expected to primarily support energy-related projects. As is standard practice when DFC makes an investment in a fund, the fund manager, not DFC, is responsible for sourcing and pursuing projects.

Question. What efforts or projects are being pursued by DFC related to 3SI digital infrastructure?

Answer. DFC's mandate is to invest in less developed countries, with the exception of projects that qualify under the 2019 *European Energy Security and Diversification Act*. All 3SI Member States are currently classified by the World Bank as high-income, except Bulgaria, which is classified as an upper middle-income country. In Bulgaria, DFC funding could also be used to support digital and other types of critical infrastructure.

For this reason, DFC's commitment to the 3SIIF is expected to primarily support energy-related projects. As is standard practice when DFC makes an investment in a fund, the fund manager, not DFC, is responsible for sourcing and pursuing projects.

Responses of Mr. Scott Nathan to Questions Submitted by Senator Chris Van Hollen

Question. Increasing the Speed and Efficiency of DFC's Operations. In order to provide a viable alternative to our strategic competitors, DFC needs to increase the speed with which projects are approved and financing is disbursed. We understand that, due to both internal and external processes, DFC projects can take 6 months to 2 years to be approved. Other Development Finance Institutions can move faster. We have heard from companies and governments that China's ability to quickly approve, disburse, and deploy resources and financing, particularly for infrastructure projects, is a significant advantage over DFC.

What recommendations can you provide that would streamline the external processes required to take a project from the initial business development phase to financial close and disbursement of funds. Are there specific policies and procedures that would improve project vetting, Know Your Customer due diligence, and compliance with DFC's Environmental and Social Policies and Procedures?

Answer. While competitor states may move faster, this tends to result in projects that are of lower quality. Diligence and speed are both important. We continually evaluate our processes to optimize efficiency and are looking to streamline processes to shorten the length of our investment process. DFC closely assesses potential projects to ensure they are commercially viable, and in the case of a loan, that the entity has the capacity to repay it under its terms. DFC projects are further screened and monitored for environmental and social risks and positive development impact and undergo Know Your Customer integrity due diligence. This thorough underwriting is vital to ensuring the long-term viability and value of the projects DFC supports, which is fundamental for sustainable development and for the success of the alternative model we are putting forward. However, as we continue to increase our staffing and capacity, we anticipate a reduction in the amount of time required to diligence each project. We continue to prioritize staffing and technical capacity in our budget requests.

Question. DFC's Prohibition on Working with State-Owned Enterprises (SOEs). DFC's policy of supporting market-based private sector development sets it apart from China. However, a 2019 World Bank report noted the important role state-owned enterprises (SOEs) play in infrastructure investments in the developing world. The report further indicated that 74 percent of infrastructure investments in East Asia and the Pacific were via SOEs. DFC's current policy does not allow financing for SOEs. Recognizing that SOEs are generally problematic due to governance challenges, market distorting actions, and the prevalence of corruption, it would be inappropriate for DFC to invest in many, if not most, SOEs. However, there could be a limited number of instances, particularly infrastructure investments with key partners in the Indo-Pacific, where DFC could consider a flexible approach to SOEs in order to advance our national interests.

As DFC considers changes to its Environmental and Social Policies and Procedures, are there plans to change the prohibition on working with SOEs? Would DFC consider establishing a waiver process for instances where an SOE investment supports our national interest?

Answer. Congress mandated DFC to be additional in its investments—to crowd in private sector capital, rather than compete with it or crowd it out. Generally, the most effective way to do this is to work directly with private sector entities, which the majority of our projects do.

However, state-owned enterprises (SOE) are dominant in many countries—including many of our allies and partners. Oftentimes, SOEs in allied countries operate as private companies in all but name. In other cases, a project involving a SOE mobilizes significant private sector capital, for example through a public-private partnership or on-lending activity to private sector businesses. DFC participates in transactions with SOEs to the extent that they are consistent with DFC's mission and our authorities.

Question. Replacing the World Bank Country Income Requirements. I strongly support efforts to provide greater flexibility to DFC to meet your dual development and national interest mandate. During your testimony, you recommended that DFC stop using the World Bank's income criteria to determine country eligibility. The *BUILD Act* requires a certification that projects located in upper-middle income countries (UMIC) further the national interest and produce developmental outcomes. The certification, delegated by the President to the Secretary of State, has both a blanket waiver for certain sectors and a certification process for projects not contained in the blanket waiver.

What would you replace the World Bank country income categories with? How many countries would this add to the places where DFC can work? Also, how would this impact the agreement between DFC and the State Department, which included consultations with the staff of the Senate Foreign Relations Committee, on certifying upper-middle income country investments as being in the national interest?

Answer. We believe the reliance on World Bank country income classifications to define DFC country eligibility is not the most effective way to achieve development impact. To our knowledge, other development finance institutions and even the World Bank itself do not exclusively use country income classifications to determine eligibility for support. There are several alternative options for establishing DFC country eligibility that would better achieve the Congressional intent of ensuring DFC's focus on advancing economic development.

One option is to use the World Bank Lending Categories rather than World Bank Country Income Categories. Doing so would make 12 more countries understood to need development finance tools potentially eligible for DFC financing. The World Bank takes gross national income levels into consideration when deciding whether to graduate a country from lending support, but they also conduct a country-specific, holistic analysis that considers the extent of access to external capital markets on reasonable terms and progress in establishing key institutions for economic and social development.

RESPONSES OF MR. SCOTT NATHAN TO QUESTIONS
SUBMITTED BY SENATOR TAMMY DUCKWORTH

Question. Recognizing that we must do more to ensure that people with disabilities do not continue to be left behind in our development investing, in 2018 the World Bank Group made 10 commitments on disability inclusive development.

Mr. Nathan, the United States is seen as a global leader when it comes to disability rights and inclusion. As such, will the DFC commit to disability inclusive development, including investing in accessible infrastructure, education, social protection (also known as social security) and even in helping disabled entrepreneurs?

Answer. Yes, in fact DFC has recently been exploring further opportunities to finance companies that support people with disabilities or companies that are led by entrepreneurs with disabilities. DFC, in partnership with the Department of State, hosted a global business development event focused on engaging with businesses that are active in advocating for people with disabilities, or led by people with disabilities. From that event, DFC has been providing advice and guidance to businesses which surfaced during that event as possible eligible clients, thus working to create a pipeline of qualifying companies in which to invest. Furthermore, in September 2023 DFC provided a technical assistance grant to provide needed pre-investment technical assistance to assess the feasibility, and strategic and operational implications, of transitioning the Disability Impact Fund (DIF), a grant-supported entity, into a blended capital investment vehicle, and facilitate potential follow-on debt financing from DFC. DIF aims to improve the access, availability, and affordability of assistive technologies in low and middle-income countries by first incubating and then investing in new, simplified products and/or innovative distribution models. In addition, DFC approaches inclusion of underrepresented populations, such as people with disabilities, as a cross-cutting development priority for the agency to consider when conducting business. As a result, DFC continues to explore ways to invest in projects such as those that recognize and address the needs of people with disabilities, and we look forward to engaging with you more on this topic.

Question. DFC has invested over $800 million in Ukraine for things like infrastructure, energy, small businesses and education. On top of that, the recently announced Ukraine Investment Platform (*https://www.dfc.gov/media/press-releases/joint-statement-establishment-ukraine-investment-platform#::text=DFC%20has%20been%20investing%20in,debt%20financing%2C%20and%20technical%20assistance.*), in which we will partner with other G7 nations and the European Bank for Reconstruction and Development, will help provide "humanitarian assistance, assistance to support the energy sector as well as assistance to help maintain Ukraine's economic and financial stability." It is a priority for me that any U.S. investment in Ukraine be disability-inclusive, meaning that buildings and facilities must be accessible and that people with disabilities are included in education, in getting healthcare and jobs and that they are allowed and encouraged to live in their homes and communities.

Mr. Nathan, will you commit to working with our partners in the Ukraine Investment Platform to ensure that funding flowing into Ukraine meets these goals?

Answer. DFC is aware that of the 15 percent of the global population that is disabled, the vast majority became disabled during their lifetime. In conflict or fragile contexts, the rise in disabilities is often the result of war, conflict and lack of access to food or adequate healthcare. DFC will continue to pursue investments that create opportunities for the marginalized members of Ukrainian society. For example, DFC recently approved a transaction to provide political risk insurance for the Superhumans Center, a not-for-profit healthcare facility that works in the field of prosthetics and rehabilitation of people injured during the war in Ukraine. DFC looks forward to working with partners, including as part of the Ukraine Investment Platform, to continue to advance this important agenda.

Prepared Statement of Anthony "Tony" Zakel, Inspector General, U.S. International Development Finance Corporation Office of Inspector General

Submitted by Senator Benjamin L. Cardin

Chairman Cardin and Ranking Member Risch, and members of the Committee, thank you for allowing me the opportunity to provide written testimony for the record to discuss the U.S. International Development Finance Corporation (DFC) Office of Inspector General's (OIG) oversight work related to DFC.

ABOUT DFC OIG

DFC OIG's mission is to prevent, detect, and deter fraud, waste, and abuse by conducting and supervising audits and investigations of DFC's programs and operations worldwide. Congress established DFC OIG in the *Better Utilization of Investments Leading to Development (BUILD) Act* of 2018 (Public Law 115–254 (*https://www.govinfo.gov/content/pkg/PLAW-115publ254/pdf/PLAW-115publ254.pdf*)). Like other Offices of Inspector General, DFC OIG gets its authority from the *Inspector General Act* of 1978, as amended (*IG Act* (*https://uscode.house.gov/browse/prelim@title5/part1/chapter4&edition=prelim*)). I was appointed as DFC's first Inspector General in August 2020 and report directly to the DFC Board of Directors and Congress. DFC OIG is a lean office with 13 FTEs and a $5.5 million budget in FY 2023. However, we are tasked with overseeing a growing agency whose budget has increased to over $1 billion, staff has grown to 513 employees, and has increased the number of new projects by about 132 percent between FY 2020 and FY 2022.

DFC's development portfolio has reached almost $40 billion[1] and is expected to grow in the coming years, especially in economies that may not have adequate safeguards to address fraud and corruption. DFC products include debt financing, equity investments, feasibility studies, investments funds, political risk insurance, and technical assistance.[2] These products are essential to supporting key sectors, such as small business, energy, water, infrastructure, agriculture, and health, which improve the quality of life for millions and lay the groundwork for creating modern economies and providing financing for women or other borrowers who do not have sufficient access to commercial financing.

DFC needs an effective OIG to safeguard American taxpayer dollars as DFC fulfills its dual mission to partner with the private sector to finance solutions to the most critical challenges facing the developing world today, while also advancing U.S. foreign policy priorities.

OVERSIGHT WORK TO DATE

In the last year, DFC OIG completed all four of its congressionally mandated audits, issued a draft report to management on one performance audit, and conducted eight investigations, four of which were referred to the Department of Justice for prosecution. Some of our audit and investigative work is highlighted below and additional details can be found in our Spring FY 2023 Semiannual Report to Congress (*https://www.dfc.gov/sites/default/files/media/documents/DFC%20OIG%20Spring%202023%20SARC%20FINAL.pdf*) and Fall FY 2022 Semiannual Report to Congress (*https://www.dfc.gov/sites/default/files/media/documents/DFC%20OIG%20Fall%202022%20SARC%2011.15.pdf*). Our semiannual reports to Congress, as well as our audit reports, Top Man-

[1] U.S. International Development Finance Corporation, Annual Management Report, FY 2022 (*https://www.dfc.gov/sites/default/files/media/documents/DFC%20AMR%20FY%2020 22_508%20Compliant%20Document.pdf*)

[2] DFC Website: *https://www.dfc.gov/what-we-offer/our-products*

agement Challenges Facing DFC,[3] and other public documents and correspondence can be found on our external website, *www.dfc.gov/oig*.

AUDITS

The Office of Audits conducts a variety of independent, statutorily mandated, and discretionary performance audits assessing controls of DFC programs and operations to detect and deter waste and mismanagement. Mandatory audit work includes Financial Statements, *Federal Information Security Modernization Act* (FISMA), Risk Assessment of Government Charge Cards, and *Payment Integrity Information Act* (PIIA) audits. Performance audits determine if programs or functions are operating as intended to achieve stated goals. Two recent performance audits are highlighted below.

- DFC Made Significant Progress Implementing Provisions of the *BUILD Act* (*https://www.dfc.gov/sites/default/files/media/documents/dfc_made_significant_progress_implementing_the_build_act.pdf*). This audit revealed that DFC complied with and implemented 116 of the 118 subsections of the *BUILD Act*. The two subsections not fully implemented were: (1) the roles, responsibilities, and authorities of the Chief Development Officer and Chief Risk Officer; and (2) DFC publicly reporting performance metrics including development impact on a country-by-country basis. In addition, we noted two observations regarding: (1) the methodology of calculating and tracking the progress of investments in less developed countries;[4] and (2) the Annual Report timeliness.
- We are finalizing an audit of DFC-funded renewable energy and finance projects in India. This was DFC OIG's first audit where we had "boots on the ground," allowing us an opportunity to review projects and see DFC's impact in developing countries firsthand. Our audit team, along with DFC staff, traveled to India in February and March 2023, where we visited eight DFC-financed projects. We issued a draft report to management in September. Issues identified in the report include records management, waiver of environmental and social standards, project monitoring, reporting fatalities and serious injuries, and subordinate loans policies. The final report of our audit findings and recommendations will be published later this month.

INVESTIGATIONS

The Office of Investigations conducts proactive investigations and responds to allegations of fraud, abuse, and misconduct, which may result in criminal, civil, or administrative sanctions. DFC OIG investigations protect whistleblowers and address critical and sensitive issues supporting not only DFC's mission, but also U.S. for-

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[3] DFC OIG website: *https://www.dfc.gov/oig/reports/strategic-plans-top-management-challenges*

[4] Under the *BUILD Act*, DFC is required to prioritize support for less developed countries with a low-income economy or a lower-middle-income economy. See 22 U.S.C. § 9612(c)(1); see also 22 U.S.C. § 9601(2).

eign policy objectives and national security interests more broadly. The Office of Investigations seeks to foster the integrity of DFC employees, partners, and contractors, and encourages them to report suspected wrongdoing through outreach and training. To inform and protect whistleblowers, DFC OIG provides training to new DFC employees and issues periodic newsletters to all DFC employees to inform on how OIG conducts investigations and protect those who report suspected fraud, illegal activity, or misconduct. OIG has investigated several complaints by whistleblowers, including whistleblower reprisal complaints against two senior officials, both of which were substantiated.

The OIG Hotline is available 24 hours every day online (*https://www.dfc.gov/oig/hotline#no-back*) or by phone, +1 833–OIG–4DFC. This permits information and complaints to be submitted to DFC OIG easily and confidentially from anywhere in the world. Since DFC OIG's inception, we have received 64 allegations, which have resulted in 39 preliminary inquiries or investigations. During that time, we conducted 6 proactive initiatives to detect fraud and illegal conduct. In a recent investigation, we found that a loan applicant submitted false financial statements to DFC in support of a $41 million loan for a construction project in the Middle East. Fortunately, the loan commitment was cancelled before funds were dispersed. We sent a report to DFC management detailing our findings and have referred the subjects of the investigation to DFC for debarment. This will be the first suspension and debarment referral to DFC.

As part of a proactive investigative initiative OIG traveled to India to verify that solar panels used in projects funded by DFC loans were not linked to forced labor programs as identified by a Federal interagency advisory.[5] We examined the solar modules and inverters and confirmed that although they were manufactured by companies in the PRC, they were not linked to forced labor origins.

UKRAINE MANAGEMENT ADVISORY

DFC OIG intends to proactively protect DFC's investments in Ukraine. To raise awareness of potential areas for fraud and abuse, we issued a management advisory, Key Considerations to Inform DFC's Response in Ukraine (*https://www.dfc.gov/sites/default/files/media/documents/Key%20Considerations%20for%20DFC%20Response%20to%20Ukraine.pdf*), to DFC management in June 2023. DFC plans to mobilize well over $1 billion in private sector capital to support the economy and people of Ukraine. While it has been reported that Ukraine has made significant improvements in its efforts to address corruption, it still faces challenges with implementing internal controls to ensure effective and efficient reconstruction efforts. DFC OIG is a member of the Ukraine Oversight Interagency Working Group; coordinating with other OIGs, international law enforcement entities, and various domestic and international stakeholders, and intends to commit re-

[5] U.S. Interagency: Xinjiang Supply Chain Business Advisory (*https://www.state.gov/wp-content/uploads/2021/07/Xinjiang-Business-Advisory-13July2021.pdf*): Risks and Considerations for Businesses and Individuals with Exposure to Entities Engaged in Forced Labor and other Human Rights Abuses linked to Xinjiang, China, updated July 13, 2021.

sources to proactively monitor and evaluate DFC-funded projects in Ukraine.

DFC TOP MANAGEMENT CHALLENGES IN FY 2023

Last fall, in collaboration with DFC, OIG published Top Management Challenges (TMCs) facing DFC in FY 2023 and discussed four challenges:[6] (1) improving monitoring and evaluating actual development impact; (2) improving performance management, transparency, accuracy and availability of project data as DFC's commitments grow; (3) balancing heightened expectations of Congress and stakeholders while managing risks; and (4) managing organizational transition while building internal controls of core management systems. Specifically, we identified that DFC needs to take action to make actual development impact achieved and promotion of our nation's foreign policy the primary metrics of its success. We are currently working with DFC to identify FY 2024 TMCs, which likely will be similar to those previously identified.

MEMORANDUM OF AGREEMENTS

DFC OIG has been actively establishing international partnerships to support anti-fraud and anti-corruption initiatives that will enrich our audit and investigative efforts. We recently executed Memoranda of Agreement (MOA) with the United Nations Office of Project Services (UNOPS) Internal Audit and Investigations Group, the European Anti-Fraud Office (known by the acronym OLAF), and the World Bank Group Internal Audit (GIA). These MOAs are based on a common interest to enhance relationships that support sharing information and other resources with these international partners, which is critical given the international nature of our work.

LOOKING AHEAD

The BUILD Act authorizes DFC to grow its portfolio to $60 billion. To reach this goal, DFC plans to increase its staff level to 700 by September 2024. As DFC's portfolio and staff levels grow, the OIG also must grow. To audit program and operational effectiveness, as well as investigate allegations of fraud, in a portfolio of DFC's size and complexity, the OIG must attract and retain skilled, experienced auditors, evaluators, investigators, attorneys, and other professionals. We also want to effectively monitor and evaluate DFC-funded projects worldwide, which includes site visits, as a critical aspect of evaluating progress, assessing development impact, developing relationships, and identifying potentially fraudulent activity.

FUTURE PLANNED AUDITS

The OIG currently has two future audits planned for FY 2024. The first is an audit of DFC's goods and services contracts. We issued an audit announcement letter to management this week. The objective of this audit is to determine whether DFC complied

[6] Top Management Challenges Facing DFC in FY 2023 (*https://www.dfc.gov/sites/default/files/media/documents/Top%20Management%20Challenges%20Facing%20DFC%20in%20FY%202023.pdf*), DFC OIG website: *www.dfc.gov/oig*

with applicable goods and services contract regulations, policies, and. In the second audit, because of DFC's dramatic growth[7] and the recent organization realignment announcement, we plan to audit DFC's workforce planning efforts. We will assess if DFC is hiring the right people in the right places, how decisions were made, and explore current employee retention efforts. We will also review DFC's strategic human capital management as it positions the organization to be more effective and results-oriented by managing DFC's most valued resource—its people.

DFC'S SUSPENSION AND DEBARMENT PROGRAM

The OIG referred its first suspension and debarment referral to DFC in September 2023. This involved a loan applicant who submitted false financial statements to DFC in support of a $41 million loan for a construction project in the Middle East. Fortunately, the loan commitment was cancelled before funds were dispersed. OIG sent a report to DFC management detailing our findings and requesting that the involved parties be debarred from doing future business with the U.S. Government.

INSPECTIONS & EVALUATIONS OF DFC PROJECTS WORLDWIDE

DFC has a global reach and currently has development initiatives in four regions: Africa and the Middle East; Latin America and the Caribbean; Indo-Pacific; and Eastern Europe and Eurasia. DFC has also stated that it plans to open several offices in strategic global locations. In addition, DFC has also made investment commitments in Ukraine, which will likely increase in the future. To enhance our oversight efforts, DFC OIG intends to establish and mobilize an inspections and evaluations (I&E) program in FY 2024 to assess 8–10 DFC-funded projects around the world. An I&E program is needed to improve transparency and provide timely status of project progress and development impact as DFC's portfolio continues to grow. The I&E program will provide "boots on the ground," giving DFC OIG the ability to provide real-time input regarding project status and effectiveness to help make timely recommendations for improvement and identify where administrative action might be necessary. The OIG's I&E program will incorporate lessons learned from our recent audit of DFC investments in India and we will also collaborate with DFC's Office of Accountability and DFC's Impact Management and Monitoring Division.

REAUTHORIZATION CONSIDERATIONS

While DFC OIG is in the process of evaluating meaningful recommendations for Congress to consider as it deliberates policy options to ensure DFC is equipped to accomplish its dual mandate, so far, we have identified the following items for DFC OIG to continue to provide efficient and effective oversight.

1. Need for Law Enforcement Authority

DFC OIG is hampered in its ability to independently conduct certain law enforcement activities because we do not have law enforcement authority. Our request for such authority has been pending

[7] DFC plans to have 700+ employees by 2025.

with the U.S. Attorney General's Office for close to 3 years. Prior to the *BUILD Act*, DFC's predecessor, the Overseas Private Investment Corporation (OPIC), was overseen by USAID OIG, which has law enforcement authority. Compared to OPIC, DFC has a significantly larger portfolio, a larger staff, expanded investment authority (including equity), and increased focus on development impact and promoting U.S. national interests. DFC OIG cannot properly oversee DFC without the same law enforcement authority that its predecessor OIG—and almost all other OIGs—have. Our lack of law enforcement authority has also hampered our ability to recruit and hire experienced investigators, who naturally want to continue their law enforcement careers.

Should a legislative authorization be introduced by Congress, it can include the following language.

> Add at the end of subtitle G of division E the following:
>
> SEC.__. LAW ENFORCEMENT AUTHORITY OF THE INSPECTOR GENERAL OF THE UNITED STATES INTERNATIONAL DEVELOPMENT FINANCE CORPORATION.
>
> Section 6(f)(3) of the *Inspector General Act* of 1978 (5 U.S.C. App.) is amended by inserting "International Development Finance Corporation," before "Environmental."

2. Access to Contractor, Partner, and End Beneficiary Information

As DFC OIG conducts audits of DFC's programs and operations as well as investigates allegations of fraud and corruption, access to information from all entities involved is imperative to evaluate program and operational effectiveness and to confirm if allegations have merit.

CONCLUSION

DFC OIG is dedicated to safeguarding the critical resources entrusted to DFC to carryout U.S. development initiatives and foreign policy priorities. As we complete our work, we will continue to address new vulnerabilities and challenges, and will consult with Congress, our Board of Directors, OMB, and other stakeholders to provide the most impactful and responsive oversight possible.

I appreciate the opportunity to provide you with this overview of our work and our needs. My staff and I are always available to brief you and your staff and look forward to working with you on prioritizing future oversight efforts.

Five Letters to the Development Finance Corporation on Solar, Mission, Purpose, Zimbabwe, Brazil, and Climate Matters

Submitted by Senator James E. Risch

United States Senate
COMMITTEE ON FOREIGN RELATIONS
WASHINGTON, DC 20510–6225

April 27, 2022

The Honorable Scott Nathan
Chief Executive Officer
U.S. Development Finance Corporation
1100 New York Avenue, N.W.
Washington, D.C. 20527

Dear Mr. Nathan:

I understand that the Development Finance Corporation (DFC) has requested that I release my hold on DFC CN 22 22, which proposes to open an office in Sao Paolo, Brazil to spur international climate finance in the land sector. While I understand that the DFC is eager to move forward on this proposal, I cannot allow a congressional notification to proceed while repeated requests for policy clarification remain outstanding.

For more than a year, I have been asking DFC leadership to provide written guidance for implementation of Section 1412(c)(2) of the Better Utilization of Investments Leading to Development Act (BUILD Act), which requires the agency to certify to Congress that assistance provided in an Upper Middle-Income Country (UMIC) "furthers the national economic or foreign policy interests of the United States," and "is designed to produce significant developmental outcomes or provide developmental benefits to the poorest population of that country." To date, those requests remain unanswered.

The agency cannot justify the establishment of an office designed exclusively to do business in a UMIC absent clear policy guidance on how it will comply with the law. Notably, Brazil is a UMIC.

Until I receive the written guidance I have been requesting, I cannot release my hold on DFC CN 22 22. I look forward to your prompt response.

Sincerely,

JAMES E. RISCH
Ranking Member

United States Senate
COMMITTEE ON FOREIGN RELATIONS
WASHINGTON, DC 20510–6225

October 27, 2021

The Honorable Dev Jagadesan
Acting Chief Executive Officer
Development Finance Corporation
1100 New York Avenue N.W.
Washington, DC 20527

Dear Mr. Jagadesan:

Since its formal establishment, the U.S. International Development Finance Corporation (DFC) predictably has experienced some growing pains. These include confusion among Members of Congress as well as within the DFC itself about the regions, countries, and sectors in which the DFC is *authorized* to operate and the regions, countries, and sectors in which it *should* operate. As a strong supporter of the DFC, and the legislation that created it, I am writing to open a dialogue about the agency's mission and future, and to encourage the DFC to work assiduously to establish clearly articulated policies that bring balance to the DFC's dual mandate.

The DFC was designed to be different than its predecessor, the Overseas Private Investment Corporation (OPIC). It was also designed to think and operate differently than the United States Agency for International Development (USAID), from which the DFC derives its Development Credit Authority. The DFC was intended to make investments where access to capital is unavailable at a reasonable rate. The intent of these investments is to use the DFC to create development opportunities for the private sector, thus demonstrating the value of private sector-led growth around the world.

As authorized by the Better Utilization of Investments Leading to Development Act of 2018 (the BUILD Act), the primary focus of the DFC's work is in low income, lower middle-income and, with appropriate certification, upper-middle income countries. Subsequent legislation approved by Congress has opened the aperture slightly to provide additional flexibility to certain high income European countries under limited circumstances. The purpose of this flexibility is to pre-empt or counter efforts by our adversaries to acquire significant political or economic leverage, or national security-sensitive technologies, in U.S. ally and partner countries. The BUILD Act also includes specific requirements to ensure DFC supports, supplements and encourages, but does not compete with or replace, the private sector.

Within these geographic areas and caveats, the DFC was created to advance two complementary missions: to *promote* economic freedom and to *protect* economic freedom. While many of my colleagues are understandably eager to put the DFC's ample resources to work in support of particular regions, countries, or sectors – some with the stated purpose of countering strategic competitors like China or adversaries like Russia, and others to promote smart development – it cannot be all things to everyone and everywhere at once. The failure to balance and harmonize the DFC's dual mission has thus created tension that, left unresolved, will require difficult choices in the future.

It is widely understood that it is in the strategic interests of the United States to *promote economic freedom* in the world. Both during and after the Cold War, the success of the U.S. mission to promote economic freedom – catalyzed by the embrace of free market principles, inclusive economic growth, and trade – has helped lift hundreds of millions of people out of poverty and achieve shared prosperity. The BUILD Act enhanced this success by creating a new tool to promote economic freedom and advance U.S. foreign policy interests, particularly by directing the DFC to make smart investments that unlock private sector-led growth in low and lower middle-income countries. True prosperity results from individuals working to pursue their own economic interests, not those directed by government decision-makers. This is the DFC's core mandate.

It also is in the strategic interests of the United States to *protect economic freedom* from encroachment by authoritarian regimes that seek to undermine or manipulate free markets for their own goals. This is why the BUILD Act also includes a strategic mission to protect economic freedom and key U.S. national security interests by providing an alternative to state-directed investments by authoritarian governments. Today, the United States competes with authoritarian regimes, particularly China and Russia, who place commerce at the service of the government's political objectives and use the power of the state to manipulate the free market and seize unfair competitive advantages. In doing so, they displace the individual entrepreneur from the center of commercial activity. These highly distorting alternative models use government directives to channel resources towards favored projects, many of which are strategically useful to our adversaries, regardless of basic economic principles. The DFC's mission to *protect* economic freedom from encroachment or manipulation by authoritarian regimes is thus closely related to the mission to *promote* economic freedom in developing countries.

The DFC must establish transparent policies, guidelines, and mechanisms to thoughtfully manage and balance these complementary missions. The outcome of such an approach should produce a mix of investments – some that are primarily development-focused, and others that have a clear strategic focus on advancing defined U.S. foreign policy priorities through the delivery of development finance. Such policies, guidelines, and mechanisms should reflect the DFC's core mission of providing market-driven options and should provide clear public guidance as to how the DFC intends to allocate resources amongst the dual missions of promoting and protecting economic freedom in alignment with U.S. foreign policy goals.

In promoting economic freedom, the DFC is meant to help overcome "banking famine", primarily in lower income countries where ill-conceived government policies unduly constrain private sector-led growth. The DFC is unique in that it is a financing mechanism that can partner with individuals with viable business projects, in contrast with USAID which provides development assistance in the form of grants. Unlike USAID, which is encumbered by directives and operates almost exclusively in "traditional" development sectors in low income countries through nongovernmental organizations and development contractors, the DFC should be transaction-focused, responding to market demands, opportunities, and business needs.

To that end, the DFC should avoid making significant political commitments to favored countries, or to further specific ideological preferences beyond the pursuit of economic freedom and the defense of critical U.S. national security and foreign policy priorities. Moreover, executive branch agencies and actors should not pledge or promise DFC cash in advance to fund narrowly construed political priorities that whiplash with each change of administration. DFC commitments should follow identifiable, bankable projects where reasonable due diligence has been carried out and projects have been vetted for their potential based on a sound mix of financial, developmental and foreign policy returns.

The DFC should also avoid imposing arbitrary mandates on itself, whether it be by region or by sector. Such mandates will eliminate the flexibility required for the DFC to remain market-driven and transaction focused, potentially leading to artificial distortions. To that end, the DFC should augment its outreach to the U.S. business sector, and enhance its coordination with USAID missions in the field to identify business opportunities.

The objective of protecting economic freedom through strategic investments can be met by investing in projects that demonstrate the benefits of private sector-led growth to partners in developing countries. However, this objective also can and should be accomplished by enabling investments in sectors that are of strategic significance to the United States (e.g. digital economy; advanced technologies; energy; infrastructure; supply chains for critical items such as minerals and rare earths; and public health products like vaccines, pharmaceuticals, and personal protective equipment, etc.), and where malign actors, including the governments of China and Russia, are making significant headway in terms of investment and influence.

Notably, however, a large number of DFC investments in the Indo-Pacific region have focused on smaller-scale development projects. While the DFC made multiple energy investments, the vast majority of investments have thus far been limited to one sector and in one country: the solar industry in India. Promoting renewable energy may advance U.S. foreign policy goals, such as improving environmental standards or combatting the effects of climate change, but the DFC should be focused on a broader array of foreign policy priorities. Moreover, the DFC has made few investments in the Indo-Pacific in the areas of technology and infrastructure (with a few notable exceptions like the $190 million deal to finance the construction of an undersea cable, and two investments totaling almost $56 million in Indian infrastructure financing). In fulfilling its mandate to protect economic freedom, the DFC must ensure that its investments in the Indo-Pacific are in a wide variety of strategic sectors where China is making inroads.

The DFC should develop clear guidelines with respect to how it will work in upper-middle income and, when authorized, in certain high income countries. When properly tailored, the DFC has the potential to be a potent development and strategic tool in regions like the Balkans and parts of Eastern Europe that lack good banking and investment options, and are subject to malign Russian and Chinese influence. Such policies and guidelines must be consistent with the BUILD Act's requirements under Section 1452 regarding additionality and avoiding private sector displacement, and in the case of certain European projects, the European Energy Security and Diversification Act. In particular, it is vital that the DFC take appropriate steps to avoid the appearance of engaging in "corporate welfare" in high income countries: using U.S. taxpayer dollars to subsidize projects in wealthy countries where the project sponsor, exercising reasonable efforts, has the ability to secure adequate financing from the banking sector or capital markets.

We all have a stake in ensuring the success of the DFC. I look forward to continuing this conversation as to how we can improve DFC's capacity to fulfill its twin missions of promoting and protecting economic freedom.

Sincerely,

JAMES E. RISCH
Ranking Member

United States Senate

COMMITTEE ON FOREIGN RELATIONS
WASHINGTON, DC 20510–6225

October 29, 2021

The Honorable Dev Jagadesan
Acting Chief Executive Officer
Development Finance Corporation
1100 New York Avenue N.W.
Washington, D.C. 20527

Dear Mr. Jagadesan:

Thank you for briefing and providing written responses to questions I raised regarding the Development Finance Corporation's (DFC) proposed investments in the solar industry, including with respect to the following congressionally-notified projects where equipment is being sourced from China:

- **CN 21 94 (September 20, 2021):** DFC notification of intent to provide a 20-year direct loan of up to $90,000,000 to Avaada Sunrays Energy Private Limited (Avaada Sunrays) to support the development, construction, and operation of a 320 megawatt (MW) solar photovoltaic (PV) power plant in Rajasthan, India.

- **CN 21 95 (September 20, 2021):** DFC notification of intent to provide an equity investment of up to $5,000,000 to Daystar Power Group ("Daystar" or the "Company") to support the expansion of its sustainable power solution offerings for commercial and industrial customers in Nigeria and throughout West Africa.

I am lifting my informational holds on both of these projects. However, I am inclined to object to any future DFC support for solar projects involving Chinese-sourced components or equipment until the DFC makes significant progress in fulfilling the following conditions.

First, the DFC should turn its focus to boosting manufacturing for solar panels, components, and equipment outside of China, and I expect to see a pipeline of these projects. DFC staff have repeatedly assured that the agency takes human rights concerns – including the undeniable presence of forced labor in China's solar industry – seriously, and that finding viable alternatives for solar panels, components, and equipment currently sourced from China is a high priority. DFC staff has also acknowledged that sourcing solar equipment from China risks tarnishing the reputation of the DFC, and undermines U.S. government commitments to tackle the scourge of forced labor. Such sourcing also subsidizes China's monopoly of an important part of the global

The Honorable Dev Jagadesan
October 29, 2021
Page 2

energy supply chain at a time when the entire U.S. government needs to reduce ours and our allies' vulnerability to China's coercive economic practices.

The fact that 18 of the DFC's 21 current solar projects source panels from China shows how great of a challenge this is, and how urgently we must address it. The United States, and specifically the DFC, must act quickly and decisively to secure supplies from elsewhere.

Second, the DFC needs a modern slavery-free supply chain. To this end, DFC leadership must present to this committee a comprehensive strategy, including accompanying policies and procedures, to ensure there is no forced labor in the supply chains of DFC-financed projects. The current policy of asking both the recipient of DFC support and its solar equipment suppliers to "ensure they are not on a U.S. sanctions list and that no WRO [Withhold Release Order] has been issued," as the DFC described in its written responses, is necessary but insufficient. I understand the DFC is working to formulate a far more thorough approach. This is encouraging, but I have yet to receive a fulsome response from the DFC on the status of those efforts, including information on any additional steps that are being considered. I expect to receive a substantive written update on these efforts – even if a full plan is not yet finished – by January 1, 2022.

Finally, I expect the DFC to make concrete, demonstrable progress in diversifying its energy investments, rather than pursuing a strategy that focuses primarily on the solar industry. Data provided indicates that 52.5% of active DFC energy projects originating in the last five years are in solar, compared to only 12.5% that were in fossil fuel power generation, including natural gas. In the Indo-Pacific, the DFC's website indicates it has financed 10 energy projects since the beginning of 2020. Of those 10, nine of them are in the solar industry in one country: India. The DFC should be looking for viable projects across the region to advance private sector-led development and provide alternatives to state-directed Chinese investment. I need to see tangible proof in the coming year that the DFC is seeking a broad array of opportunities in both renewable and nonrenewable energy.

Thank you for your attention to these important matters. I know the DFC shares my deep concern about human rights abuses and forced labor in China. I am confident that we can change how we do business to ensure our energy investments better advance U.S. interests.

Sincerely,

JAMES E. RISCH
Ranking Member

United States Senate

COMMITTEE ON FOREIGN RELATIONS

WASHINGTON, DC 20510–6225

March 8, 2022

The Honorable Dev Jagadesan
Acting Chief Executive Officer
Development Finance Corporation
1100 New York Avenue, N.W.
Washington, D.C. 20527

Dear Mr. Jagadesan:

I am writing to follow up on my December 9, 2021 letter seeking assurances that the Development Finance Corporation (DFC) will not conduct programming in Zimbabwe, either directly with the Government of Zimbabwe or in a way that will indirectly benefit the regime, regardless of any investment incentive agreement between the United States and Zimbabwe going into effect.

While I appreciate the response last month from the DFC Office of External Affairs, the letter seemed to indicate that the DFC may be currently evaluating or have plans to evaluate potential projects in Zimbabwe. The letter certainly did not rule out the potential for DFC investments in Zimbabwe, despite the absence of dramatic democratic and economic reforms and improvements in the investment environment that have been stated pre-conditions for increased U.S. engagement with Zimbabwe for decades. This comes despite assurances that there are no such plans for DFC investment in Zimbabwe from Department of State and DFC officials in a call with my staff on November 8, 2021. As such, I request the following information in writing:

1) A list of all DFC projects under consideration and/or discussions with potential investors and external partners regarding potential projects in Zimbabwe at any stage;

2) A list of all DFC communications with any national of Zimbabwe since January 1, 2021; and

3) A list of DFC employees who traveled to Zimbabwe since January 1, 2021, or who are considering travelling to Zimbabwe.

The United States has been, and should remain, a steadfast supporter of the people of Zimbabwe. However, I have deep concerns that engagement by the DFC in Zimbabwe would undermine long-standing U.S. policy, which conditions deepening U.S. engagement on key reforms outlined in the Zimbabwe Democracy and Economic Recovery Act (ZDERA). Further, the state of the Zimbabwean economy, including pervasive corruption and complete lack of transparency, makes conducting adequate due diligence extremely challenging and ensures that it will be very difficult

The Honorable Dev Jagadesan
March 8, 2022
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to certify that the government of Zimbabwe or government officials would not benefit from DFC investments. I look forward to your response.

Sincerely,

JAMES E. RISCH
Ranking Member

CC: The Honorable Antony J. Blinken, Secretary, U.S. Department of State
The Honorable Janet Yellen, Secretary, U.S. Department of the Treasury
The Honorable Samantha Power, Administrator, U.S. Agency for International Development

United States Senate

COMMITTEE ON FOREIGN RELATIONS

WASHINGTON, DC 20510–6225

December 9, 2021

The Honorable Dev Jagadesan
Acting Chief Executive Officer
Development Finance Corporation
1100 New York Avenue, N.W.
Washington, D.C. 20527

Dear Mr. Jagadesan:

I am writing to seek assurances that the Development Finance Corporation (DFC) will not conduct programming in Zimbabwe directly with the Government of Zimbabwe or in a way that will indirectly benefit the regime, regardless of any investment incentive agreement going into effect. As you must know, the widespread corruption and systematic human rights abuses committed at the hands of the Zimbabwean state deeply concern me. I have been vocal about my support for United States assistance to bolster the people of Zimbabwe, but insistent that the United States refrain from any engagements that will have the direct or indirect effect of sustaining kleptocracy and the criminal behavior by Zimbabwe's government officials or the ruling party, ZANU-PF.

On November 2, 2021, I received notification, per the Case-Zablocki Act (1 USC 112b, as amended), that an investment incentive agreement between the Government of the United States of America and the Government of the Republic of Zimbabwe entered into force on March 24, 2021. The United States signed the investment incentive agreement with Zimbabwe on January 20, 1999, when the bilateral relationship was more productive, and prospects for Overseas Private Investment Corporation (OPIC) support for projects in Zimbabwe made sense. I understand that the Parliament of Zimbabwe finally ratified the investment incentive agreement and the Government of Zimbabwe notified the State Department, via a diplomatic note in March 2021, that it fulfilled all legal requirements for entry into force. During a call on November 8, the DFC's legal office and the Department of State's Africa Bureau conveyed to my staff that the terms of the investment incentive agreement would be favorable to the United States if OPIC's successor, the DFC, provided support at a future date.

As you are aware, the Zimbabwe Democracy and Economic Recovery Act (ZDERA), as amended (P.L.115-231), details the conditions under which the United States should seek to forge a stronger bilateral relationship with Zimbabwe. These conditions include the Government of Zimbabwe taking "concrete, tangible steps toward… good governance, including respect for the opposition, the rule of law, and human rights," economic reforms, "identification and recovery of stolen private and public assets," and the conduct of an election "widely accepted as free and fair." Zimbabwe has not met these conditions, nor does such wholesale reform appear on the horizon. Further, the BUILD Act (P.L. 115-254) prohibits the DFC "from providing support… for a

The Honorable Dev Jagadesan
December 9, 2021
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government, or an entity owned or controlled by a government, that has engaged in a consistent pattern of gross violations of internationally recognized human rights," or to sanctioned persons on the Office of Foreign Assets Control's specially designated persons list. The Government of Zimbabwe engages in a consistent pattern of gross human rights abuses, as outlined in the Department of State's *2020 Country Reports on Human Rights Practices*. Moreover, several Zimbabwean senior government officials, including President Emmerson Mnangagwa and Vice President Constantine Chiwenga, are specially designated nationals under the Zimbabwe Sanctions Program (pursuant to Executive Orders 13288, 13391 and 13469).

While I appreciate the optimism for future DFC engagement in Zimbabwe and the preferential terms for the United States outlined in the investment incentive agreement, I am concerned that any such engagement would send the wrong signal and undermine long-standing U.S. policy conditioning deepened U.S. engagement on key reforms outlined in ZDERA. Even if the investment incentive agreement does not commit any DFC support to the Government of Zimbabwe, the fact that it went into effect this year creates an unnecessary propaganda tool for President Mnangagwa to continue spreading false narratives about United States engagement and its restrictions on Zimbabwe.

I understand that staff of the DFC and Department of State conveyed to my staff on November 8 that there are no plans for DFC investment in Zimbabwe. Please confirm, in writing to me, that the DFC, in accordance with the BUILD Act, will not make any commitment in Zimbabwe until the conditions outlined in ZDERA are met.

Sincerely,

JAMES E. RISCH
Ranking Member

CC: The Honorable Antony J. Blinken, Secretary, U.S. Department of State
The Honorable Janet Yellen, Secretary, U.S. Department of the Treasury
The Honorable Samantha Power, Administrator, U.S. Agency for International Development

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