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"China's Role in Latin America and the Caribbean"
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Democracy, Human Rights, and Global Women's Issues
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Good morning, Chairman Kaine, Ranking Member Rubio, and distinguished Members of the Subcommittee. Thank you for inviting U.S. International Development Finance Corporation, known as DFC, to testify today on our efforts to catalyze private investment in Latin America and the Caribbean. DFC brings values-driven and high-quality investment support to the region and plays an important role in a whole-of-government approach to countering People's Republic of China (PRC) engagement.

DFC's mission is to partner with the private sector to mobilize capital in support of sustainable, broad-based economic growth, poverty reduction, and development that advance U.S. foreign policy interests. Congress created DFC with an objective to provide foreign markets a robust alternative to state-directed investments by authoritarian governments and strategic competitors. These two objectives converge in Latin America and the Caribbean: a region with significant infrastructure investment gaps, high rates of inequality, and pressing development needs, and a region where the PRC has devoted increased attention. It is a U.S. Government priority to offer the private sector in the region high-quality, transparent, and accessible financing options that advance economic development. DFC pursues this objective by supporting impactful private-sector projects with equity investments, loans, loan guarantees, political risk insurance, and technical assistance.

DFC has more than $10 billion invested across Latin America and the Caribbean in key sectors such as financial services, healthcare resiliency, and agriculture. And we want to do more. Thanks to the robust appropriation that Congress provided to DFC, we aim to ramp up our efforts to drive new private project investments. In Fiscal Year 2020, DFC committed $2.2 billion across 22 transactions in the region. DFC continues to seek out eligible projects in energy, transportation, healthcare, financial services, and information and communications technology sectors. The Corporation has devoted a significant proportion of its regional portfolio to providing micro, small, and medium enterprises (MSMEs) access to the credit they need to scale up operations and hire staff. DFC's MSME finance projects are especially critical in a region like Latin America and the Caribbean, where MSMEs continue to be the primary drivers of employment, and where the economy has contracted by seven percent since the start of the COVID-19 pandemic in 2020.

DFC's model is to mobilize private capital in a way that upholds the highest social and environmental standards, reinforces good governance, avoids unsustainable debt levels, promotes inclusion, and contributes to sustainable and broad-based economic growth in the areas we work. That is a value proposition our competitors are unable to offer, and we believe our values and practices set DFC apart as a much better partner for developing countries. Unlike the PRC, DFC's efforts seek to empower our partner countries, helping them take advantage of and control their own resources. DFC's model is one of partnership and empowerment – not one of taking and exploiting. While the PRC largely finances the work of PRC-controlled entities or provides unsustainable debt to governments, the DFC model allows us to provide financing directly to the people and businesses in Latin America and the Caribbean.

DFC supports transactions that improve the lives of the poorest and most marginalized. We prioritize these transactions for two reasons. First, the PRC is not taking on these critical transactions, choosing instead to prioritize its own prosperity. Our work to address the needs of local populations first and foremost is what sets us apart as a preferred partner. Second, by supporting these populations and improving their livelihoods, DFC helps foster political and economic stability which helps cement market-oriented reforms and rule of law; we can advance both development and foreign policy through these transactions. It is important to note that while the BUILD Act asks DFC to prioritize low and lower middle-income countries, upper middle-income countries make up the bulk of the countries in Latin America and the Caribbean. By statute, our work in upper middle-income countries must be designed to produce significant developmental outcomes.

Several DFC-supported transactions demonstrate clearly how DFC can serve as a robust alternative to PRC investment in the region. For example, in Colombia, DFC provided a loan guaranty in support of a project that helps Venezuelan migrants and host communities achieve greater economic independence through expanded access to banks and financial services. DFC provided a guaranty to two Colombian financial institutions (Bancamia and Crezcamos) to promote inclusive financing for these populations. DFC also is investing in projects that promote rural development in Colombia and Peru, helping provide licit economic alternatives to the coca cultivation that weakens local governance and leads to cross-border narcotics flows.

In northern Central America, DFC is closely attuned to the challenges that drive migration and is supporting transactions that address the root causes. Again, the PRC has not shown interest in these kinds of transactions that promote economic prosperity. These transactions also advance U.S. foreign policy objectives. For example, DFC provided a $100 million direct loan to the Central American Bank for Economic Integration (CABEI) to fund financial institution intermediaries in El Salvador, Guatemala, and Honduras, which will then on-lend to MSMEs economically impacted by the COVID-19 pandemic. DFC is also supporting transactions that expand access to finance for women in northern Central America, and we recently hosted a town hall in the region in support of DFC's women's economic empowerment initiative, known as the 2X initiative.

In addition to these highly developmental transactions that reach down to individuals most in need, DFC also is pursuing investment in infrastructure, recognizing the significant financing gaps and the extent to which strategic competitors have prioritized such investment. The Inter-American Development Bank (IDB) estimates that $2.2 trillion in infrastructure spending is needed by 2030 for Latin American and Caribbean countries to meet the UN's Sustainable Development Goals, which include access to water and sanitation, reliable sources of energy, transportation, and internet connectivity. DFC cannot tackle the scale of this challenge alone, which is why partnerships with other government agencies, private sector entities, G7 countries, and multilateral financial institutions are essential.

One example of a recent project that typifies DFC's infrastructure objectives is Smart Rio, a project to modernize, maintain, and operate the public lighting system and install and manage smart city infrastructure in the city of Rio de Janeiro, Brazil. DFC is supporting this project with a guaranty of up to $267 million. The project will lead to energy savings of 60 percent per year compared to the current system through the retrofit or addition of 450,000 public lighting units with LED technology. The smart city infrastructure will include 4,000 remote sewage monitors to aid in adaptation to and resilience against flooding risks, 6,000 smart traffic lights, and 5,000 public Wi-Fi access points. Nearly threequarters of capital expenditures of the project will flow to neighborhoods below the city's median income. This project touches on two of priority sectors: climate and digital technology. Smart Rio was awarded the concession for the project after a competitive tender, beating out two other bids, one of which was submitted by a Chinese consortium backed by Huawei Technologies.

Another example of a high-quality, DFC-supported infrastructure transaction is a road project in Colombia that helps farmers and businesses access markets. DFC's $350 million local currency guaranty in support of Sacyr's social bond issuance mobilized capital for the construction and operation of a toll road that promotes linkages between poorer regions in northern Colombia and economic centers, while encouraging local financial participation and investment. These types of DFC investments have the potential to crowd in additional investment in other private sector projects, including in the agricultural and manufacturing sectors, by lowering costs of doing business.

Under the BUILD Act, DFC prioritizes investments in low and lower-middle income countries. One result of this work is in Belize, a lower-middle income country, where DFC provided a political risk insurance policy in support of a $364 million Blue Bond for Ocean Conservation. The innovative debt conversion, which DFC made possible through $610 million in political risk insurance (covering loan principal and interest), will provide sovereign debt relief and simultaneously fund projects in support of Belize's commitment to protect 30 percent of its ocean. These projects advance ocean protection, fisheries management, and climate adaptation and mitigation. This approach is a major contrast from the PRC approach in that DFC is providing sovereign debt relief, whereas PRC transactions typically cause sovereign debt stress.

DFC aims to increase electricity access for at least 10 million people by 2025 and increase internet access for 3 million people, among other goals. These development goals align with the needs in the Latin America and Caribbean region, where more than 20 million people are without electricity access and more than 80 million people rely on firewood and charcoal for cooking. 32 percent of the Latin American and Caribbean population, or 244 million people, have no internet access. Stronger health systems are urgently needed in a region where, despite constituting only 8 percent of the global population, 28 percent of global COVID-19 pandemic deaths have occurred.

It is in our foreign policy interest to address these challenges, and it is also in alignment with DFC's development mandate. Countries in Latin America and the Caribbean are critical partners in promoting prosperity, stability, and development throughout the Western Hemisphere, and the impacts of severe weather events, pandemics, and economic crises can be felt at our borders. Progress has been achieved as emerging economies have adopted market-based reforms that ease the cost of doing business and improve the investment climate. But much work still remains, and corruption and human rights continue to be paramount concerns for DFC and the U.S. government. The U.S. government is working in a coordinated manner to accelerate progress towards prosperity and stability, with the U.S. Department of State and the U.S. Agency for International Development as key partners in fostering an enabling environment for private investment, and DFC using its project support tools to provide additional impetus for investment.

Thank you again for the opportunity to discuss how DFC's work in the region represents a positive, democratic alternative to state-directed investments by authoritarian governments. I look forward to your questions.