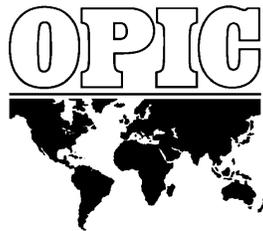


ANNUAL ENVIRONMENTAL REPORT
of the
OVERSEAS PRIVATE INVESTMENT CORPORATION

FISCAL YEAR 2003



March 2004

Introduction

This is the sixth Annual Environmental Report (AER) issued by the Overseas Private Investment Corporation (OPIC). OPIC is an agency of the U.S. Government with a mandate to facilitate and encourage U.S. private investment in developing countries and emerging markets, and to do so on a financially self-sustaining basis. Since 1985, OPIC has had a strong environmental mandate, incorporated into its authorizing statute and articulated most fully in Appendix A of OPIC's Environmental Handbook, which was issued in April 1999.

The first part of this report describes the new directions in which the Corporation embarked in Fiscal Year 2003 and the challenges this presented to OPIC's Environmental Assessment unit and to the Office of Investment Policy of which it is a part. The second part of the report describes the environmental implications of the projects to which OPIC committed its support during Fiscal Year 2003. The third part of the report describes the external and internal developments affecting OPIC's environmental policies and procedures during the fiscal year.

1. OPIC in FY 2003: "Forging New Partnerships"

The transactions supported by OPIC in 2003 continued a trend initiated by OPIC's President and CEO Peter S. Watson, who began his tenure at OPIC in 2001 with a mandate to refocus the agency on its core developmental mission. An increasing number of OPIC-supported projects focus on helping developing nations meet their basic human needs, such as housing and health care, and in channeling investment to strategically important regions, such as Afghanistan, Southern Africa, Central America and the former Soviet Union. Many of these projects rely for their initiation and success on a broad array of new and innovative partnerships with public and private institutions, including not-for-profit organizations.

New, enhanced measures of developmental impact were developed and applied systematically across OPIC's portfolio of new projects. By scoring and rating projects on a weighted total of development indicators, this new tool strengthens and simplifies OPIC's decision-making process, permits OPIC to judge empirically the value of its commitments and to evaluate project economic and social impacts.

In the environmental area, OPIC completed an extensive stakeholder consultation process, begun in 2002, to revise its policies on forests and dams (as described more fully on pages 11-12). The revisions disclosed for public comment on July 15, 2003 and adopted in final form in early 2004 responded to important developments in the scientific and stakeholder communities related to conservation of critical forest areas and environmental/social consequences of large dam projects.

2. OPIC in FY 2003: Environmental Implications

In Fiscal Year 2003, OPIC assisted 73 projects in 40 countries or regions, involving a wide range of industries. The geographic and industrial sector breakdown of these projects is presented in Figures 1 and 2, below. As shown in Figure 1, 27 (37 percent) of the year's new projects are located in Latin America. In Eastern Europe, the New Independent States and Russia, OPIC assisted twenty new projects during Fiscal Year 2003, representing 27 percent of the year's total projects. In Africa, OPIC continued to actively seek development projects in Fiscal Year 2003, particularly those that help alleviate the shortage of housing and food and fight disease. OPIC assisted eleven new projects in Africa during the year, representing 15 percent of the year's total projects. In South Asia, OPIC assisted seven new projects, all located in Afghanistan. These seven projects represented 10 percent of the year's total projects. The five remaining OPIC projects were located in East Asia, representing 7 percent of OPIC's total number of projects in Fiscal Year 2003.

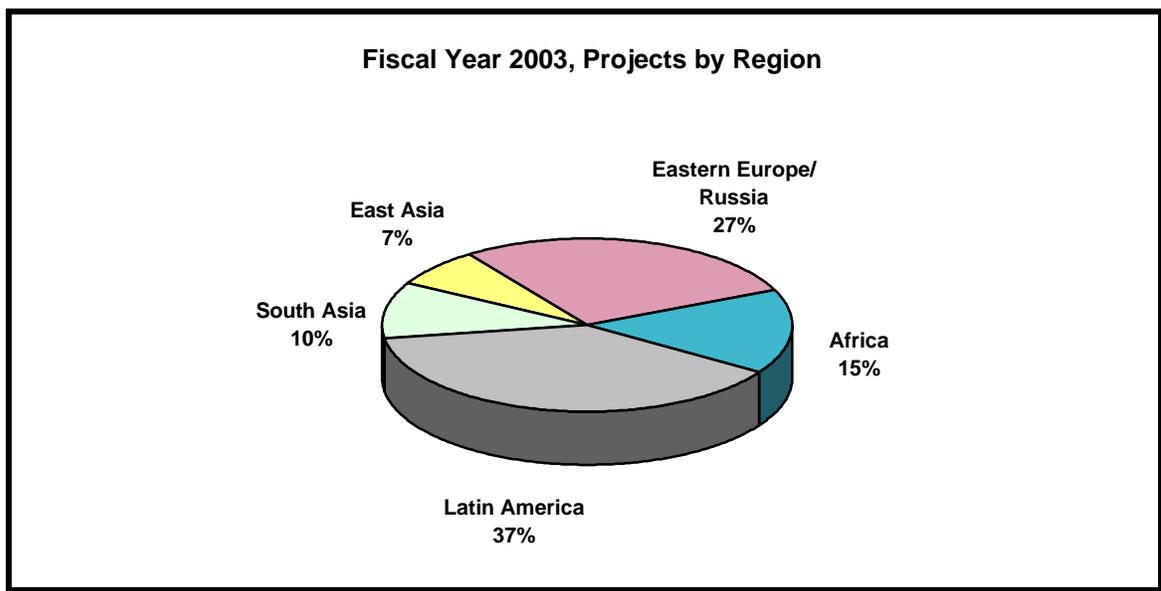


Figure 1

Figure 2 illustrates OPIC-sponsored investments by sector. Projects in the services sector, comprised of communications, banking/finance, tourism, housing construction, and other services, accounted for 62 percent of all new OPIC projects in 2003, followed by minerals and energy sector with 14 percent. Eleven percent of new OPIC projects were in the manufacturing sector, 10 percent were in agribusiness, and 4 percent were in infrastructure.

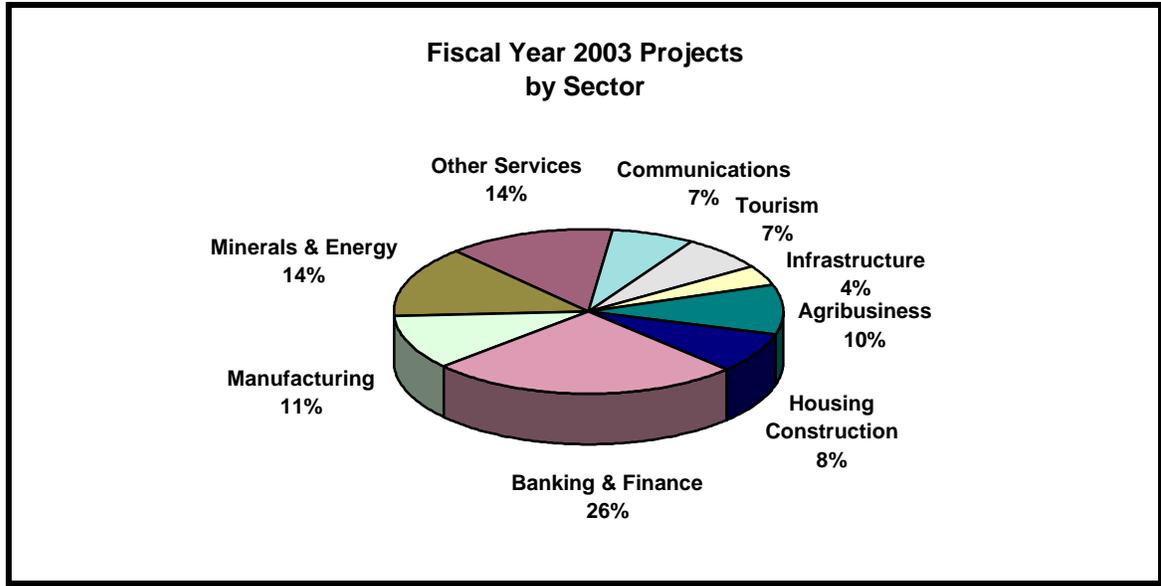


Figure 2

These results indicate that while OPIC committed nearly 65 % more projects in Fiscal Year 2003 than it did the preceding year, 73 vs. 45 projects, the distribution of these projects in terms of environmental sensitivity remained very similar. For example in each year 7 % of the projects were screened into Category A. However, FY 2003 was accompanied by a more diverse and challenging portfolio of “Category B” projects requiring OPIC to undertake more extensive due diligence than is typically the case for this category of investment activity. Examples of such projects included a regional airline in the Caucasus region, a brownfields real estate management project in Central Europe and a clinical medical research facility in Eastern Europe.

Environmental Screening

All applications for OPIC support are screened to determine whether OPIC support of the project would violate any categorical prohibitions as required by OPIC statute or policy. If a project is determined to be categorically ineligible, OPIC informs the applicant immediately so as to avoid any unnecessary effort or expense. If the project is categorically eligible, OPIC continues to screen the application to determine the level of environmental sensitivity associated with the industry sector or site involved and to request the appropriate type of information from the applicant.

Projects Rejected on Environmental Grounds

Several projects reviewed by OPIC during Fiscal Year 2003 were rejected (or if screened prior to formal application, effectively discouraged) on the basis of categorical ineligibility. Such projects typically involved degradation of primary tropical forest or irreversible losses

of critical habitat of endangered species. Other projects were rejected or discouraged because their environmental performance was not consistent with internationally accepted performance levels such as those issued by the World Bank. No projects supported during Fiscal Year 2003 violated any of OPIC's statutory or policy prohibitions.

In the interest of enhanced transparency, OPIC is including for the first time in this Annual Environmental Report, information on projects it declined to support on environmental grounds in FY 2003. For obvious reasons of business confidentiality, OPIC does not disclose the names of sponsors, foreign enterprises or projects that were affected by these decisions. The projects rejected on environmental grounds in FY 2003 involved the following industry sectors and countries or regions:

- Two timber extraction projects in Mexico in or impacting protected or fragile areas;
- Two oil extraction projects in Ecuador;
- An oil terminal on the Black Sea;
- An energy extraction project in a protected area in Africa; and
- A coal-mining project in Indonesia.

Environmental Screening Results

As noted previously, in Fiscal Year 2003 OPIC assisted 73 projects in 40 countries or regions. With respect to environmental impacts, as shown in Figure 3, five of these projects (~7%) were screened into Category A, that is, projects having potentially significant, diverse and irreversible impacts, and therefore, requiring a full Environmental Impact Assessment (EIA) or Initial Environmental Audit (IEAU). Thirty-seven projects (~50%) were screened into Category B. Category B projects are defined as those with somewhat less significant adverse environmental impacts than Category A projects. The impacts are site-specific; few, if any, are potentially irreversible, and mitigative measures can be readily designed.

Twenty-three projects (~31%) were screened as Category C projects. Category C projects are those having no material adverse environmental impacts. Eight projects (~11%) were screened as Category D projects. Category D projects involve OPIC support, usually through a loan guaranty mechanism, of an intermediary financing institution such as a private equity fund or on-lending facility. In the assessment of Category D projects, all of the individual subprojects into which such intermediaries invest or lend are subject to the full suite of OPIC environmental procedures, (as well as U.S. economic effects and worker rights), while the intermediary facilities themselves are regarded as environmentally neutral. And finally, one project (~1%) was screened as a Category E project. Category E projects involve small-scale, stand-alone business ventures that have demonstrable environmentally beneficial impacts.

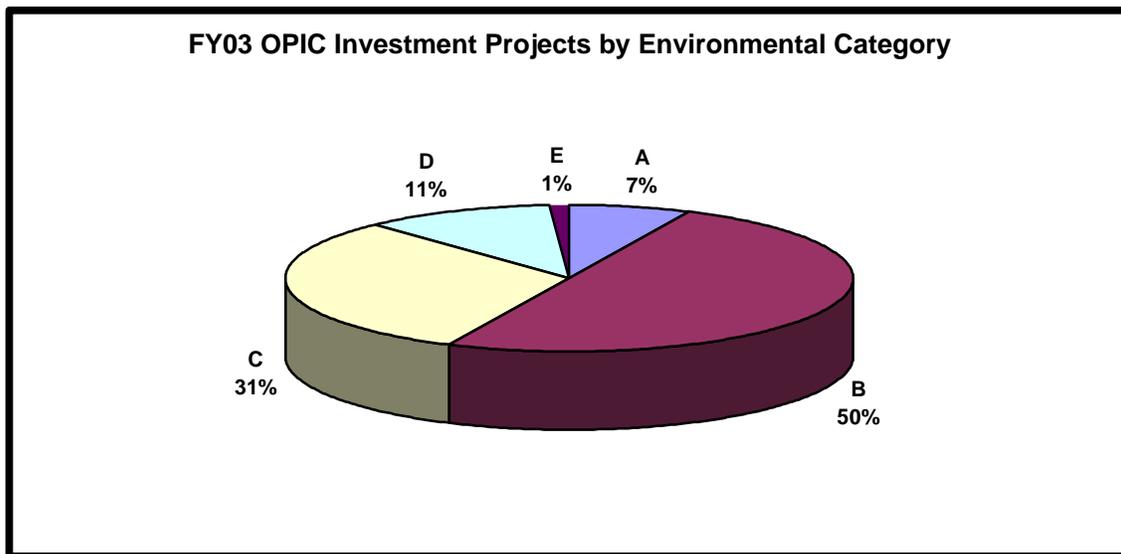


Figure 3

However, a more complete picture of the activities of OPIC's Environmental Unit (EU) can be illustrated by the 133 prospective insurance, finance and investment fund subprojects reviewed by the EU during Fiscal Year 2003. Many of these projects were continuing to be reviewed on credit, underwriting, or other policy grounds at the end of the fiscal year; therefore OPIC did not make commitments to all of the projects and subprojects reviewed. Some of these projects received preliminary OPIC commitments in the previous fiscal year subject to further environmental review.

As illustrated in Figure 4, of the 133 projects reviewed by the EU during Fiscal Year 2003, nine projects (~7%) were screened by OPIC as Category A. These projects included three power generation projects, two oil storage terminals, an airport, a toll road, a mining project and an offshore oil & gas facility.

The 74 projects (~56%) that were screened as Category B involved activities such as hotels, telecommunications, railcar leasing, housing projects, tourism, water supply, housing, airlines, breweries, oil services, franchises, small scale power and agriculture and mariculture projects. The 37 Category C projects (~28%) reviewed in Fiscal Year 2003 included wireless telecommunications, data management, mortgage finance, equipment leasing, software development, banking and educational and training activities. In addition to the above projects, the EU reviewed twelve projects (~9%) involving the creation of new OPIC On-lending facilities or Investment Funds. In accordance with the OPIC Environmental Handbook, these projects were screened as Category D projects. And finally, one project (~1%) was screened as a Category E project because it is a candidate for Global Environmental Facility support to establish a sanctuary to protect biodiversity while involving local participation in the management of the reserve. As noted above, on lending and fund subprojects are subject to complete environmental review.

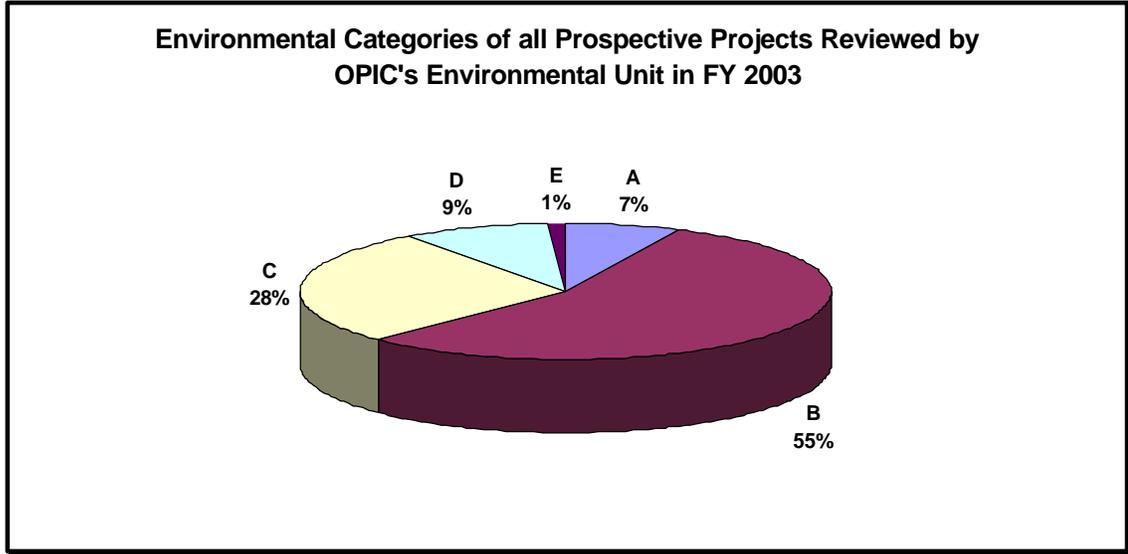


Figure 4

Public Disclosure and Comment

OPIC requires that applicants for Category A projects submit environmental impact assessments and/or environmental audits in a form that can be made public without compromising business confidential information. With the consent of the applicant, the country and industry sector involved in Category A projects are then posted on OPIC's web site, and the EIA and/or IEAU is made publicly available on request for a designated comment period of 60 days. For each project that is posted on the web site, a list server automatically emails a notification to more than 700 interested parties informing them of the new project posting and inviting their inquiries. No application for a Category A project can be processed without this public disclosure and review process. In addition, if a Category A project is large enough to require Board approval, the OPIC Board cannot approve the project until after the 60-day period has expired.

All five Category A projects supported by OPIC in Fiscal Year 2003 were posted on OPIC's website for 60 days and announced via the OPIC list server, giving the public and nongovernmental organizations full opportunity to request copies of the EIAs or IEAUs, and to comment on the projects' environmental and social impacts. All of the projects requiring approval by OPIC's Board were publicly disclosed for at least 60 days prior to the Board vote on the projects. A total of 18 requests were received for copies of the EIAs or IEAUs in connection with these projects and two comments were received on one of the projects. OPIC management responded to these comments and, if the project required Board approval, the comments were conveyed to the Board for consideration prior to project approval.

Environmental Conditionality

As noted in OPIC's Environmental Handbook, determinations of project eligibility may rely on critical representations and undertakings by the applicant or sponsor. OPIC generally includes explicit environmental and/or occupational health and safety conditions in insurance contracts, finance agreements and commitment letters issued for Category A and B projects. For example, of the 74 projects committed and 133 projects cleared in Fiscal Year 2003, 42 Category A and B projects were committed and 83 Category A and B projects were cleared. As indicated in Table 1 below conditions required that the projects be implemented in a manner consistent with the World Bank Guidelines (or, where applicable, host country, U.S., or other standards) used as the basis of OPIC's environmental assessment. Other conditions typically included the submission of annual self-monitoring reports, third-party audits and the preparation of Environmental Management and Monitoring Plans and Occupational Health and Safety Plans, as well as other specialized management plans designed to address particular hazards such as fire or oil spills. The following table provides a detailed compilation of the types of conditionality that were applied to the 134 projects reviewed in Fiscal Year 2003.

Table 1. Environmental Conditions Applied by OPIC to Projects Reviewed in FY 2003

Environmental Conditionality	Committed Projects	All Clearances
Environmental Performance Standards (WB, IFC, EBRD, etc.)	35	71
Other Performance Standards (WHO, API, ANSI, etc.)	6	12
Project Specific Operation or Technical Requirement	20	35
Environmental Management and Monitoring Plan	4	7
Occupational Health and Safety	6	12
Annual Environmental Reporting	10	16
Accident Reporting	15	25
Hazard Assessment	0	1
Additional Data or Reporting Submissions	10	22
Third Party Audit	6	11
Emergency Response Plan or Procedure	3	4
Spill Response Plan	1	3
Remediation or Compliance Plan	1	3
Special Assessment or Management Plan	8	18
Drinking Water Guidelines	1	3
Fire Protection	3	6
Compliance with U.S. or E.U. Law	4	11
Compliance with International Treaties	3	6

Project Examples

The following examples illustrate the diversity and novelty of some of the projects assessed by OPIC's Environmental Unit during the Fiscal Year 2003.

Vilanculos

OPIC is working with an entrepreneur to develop low-impact eco-tourism facilities and activities in the Vilanculos Coastal Wildlife Sanctuary. The Sanctuary, which is located adjacent to the Bazaruto Archipelago National Park in southern Mozambique, contains a range of ecosystems representative of the region and is an internationally recognized “hotspot” for marine biodiversity. Overexploitation of marine and terrestrial resources has already led to some local extinctions. OPIC’s support for the Sanctuary will help preserve biodiversity through the creation of a sustainable local economy and sustainable tourism development. Tourism development is expected to provide a revenue stream for community development activities, strategic protection of terrestrial and marine resources and active involvement of local communities in the management of their resources.

Sierra Rutile

OPIC provided a commitment to finance the reopening of Sierra Rutile Ltd., a mineral sands mining operation in Sierra Leone. The mine, which was once the largest foreign exchange earner in the country and a major source of employment in this region of the country, had been shut down since 1995 when the Revolutionary Union Front overran the mine during the country’s civil war. OPIC conducted extensive due diligence on this project including a site visit to examine adverse environmental effects directly related to the political conflict. Although most of the mine records were destroyed during the rebel attack complete dam safety inspections were conducted on the 29 embankments located on the site. Information on original dam design and construction was reconstructed from interviews with long-term mine employees. OPIC also conducted extensive interviews with affected communities to identify required modifications to resettlement planning that had been initiated prior to mine closure.

Verde Ventures

OPIC provided a direct loan to enhance the liquidity of Conservation International’s Verde Ventures investment fund. The fund supports small and medium firms that are involved in conservation enterprise sectors that support conservation outcomes in global priority areas of the world, including biodiversity “hot spots” and tropical wilderness areas. As is the case for all OPIC-supported financial intermediaries, OPIC will review each investment for consistency with OPIC’s statutory obligations.

Housing Projects

OPIC continued its efforts to support low and medium cost housing projects during Fiscal Year 2003. Projects located in post-conflict areas such as Afghanistan and Bosnia & Herzegovina represented unique challenges because of damage to infrastructure during

conflicts, the potential for unexploded ordinance on sites and the lack of mature environmental regulatory systems. In all cases OPIC worked with Project Sponsors to insure the safety of development locations and the availability of potable water and adequate sanitation services

Thermal Power

OPIC provided a loan guarantee to support the construction, ownership and operation of an 870 MW power plant in Brazil. The project was developed in partnership with Petrobras and provides flexibility in Petrobras' offshore oil & gas operations in order to reduce Petrobras' offshore gas flaring. Brazilian regulations limit flaring from Petrobras' offshore rigs. If Petrobras wants to increase production from these facilities, it may be limited by these flaring restrictions. However, under the Project's innovative gas supply agreement, Petrobras can increase production without increasing flaring by giving the gas away (literally at no cost) to the project. In so doing, Petrobras can ensure that the project will be the low cost producer and can thus ensure that the plant will be dispatched and the gas consumed. In 2003, actual CO₂ emissions from the project totaled approximately 1,118,000 tons. However, Petrobras-related dispatch was responsible for 60% of its operation, so the reduction of CO₂ from flaring natural gas offshore was around 650,000 metric tons.

Lukoil Terminal

The project involves the construction and operation of an oil terminal with a capacity to export 5 million tons of crude and oil products during its initial operating phase. The terminal is located about 27 kilometers from the Finnish border on the Gulf of Finland. Due to its location adjacent to international water the project is subject to the conventions, recommendations and guidelines of the Baltic Marine Environmental Protection Commission. The project sponsors are undertaking significant measures both unilaterally and in cooperation with neighboring countries, to prevent and respond to potential oil spills. These include the installation of state of the art vessel traffic monitoring systems, requiring tankers serving the terminal to use double hull tankers for winter months and double bottom tankers at other times and to respond to oil spills in accordance with the HELCOM convention and the applicable Russian Laws. The dredging activities are being executed to minimize marine impacts to acceptable levels in compliance with the Russian Laws and HELCOM Recommendations and Guidelines.

Tracking and Reporting Greenhouse Gas Emissions

It is widely recognized that future increases in carbon dioxide (CO₂) emissions will come predominantly from the developing world. Mid-range projections by the Intergovernmental Panel on Climate Change (IPCC) show 95 percent of the population growth and 75 percent of the growth in CO₂ emissions by the year 2025 taking place in developing countries. As a result, the energy choices made by developing countries are critical for formulating an effective global strategy to reduce future greenhouse gas emissions. Through its support of

U.S. investments in the energy sectors of developing countries, OPIC can influence some of these energy choices and their consequences for global climate change.

In FY 2003, OPIC made commitments to four power projects in three countries with a total capacity of 1,208 megawatts (MW). As in past years, the power sector projects supported by OPIC in Fiscal Year 2003 were heavily weighted toward clean burning natural gas. Three of the projects are gas-fired and incorporate gas turbines operating in open cycle and one of the projects is oil-fired and incorporates reciprocating engines.

As Figure 5, below, illustrates, measured in terms of MW capacity, the projects are more than 96% gas-fired and less than 4% diesel-fired. All of the FY 2003 projects involve new capacity. Most of this new capacity involves an 870 MW project in Brazil, which has the potential to reduce Petrobras' offshore flaring and associated CO₂ emissions (described above). In addition, the two oil-fired plants are small and utilize efficient engine-driven technology. Assuming full capacity operations, these four projects could emit approximately 4,982,260 metric tons of CO₂ per year.

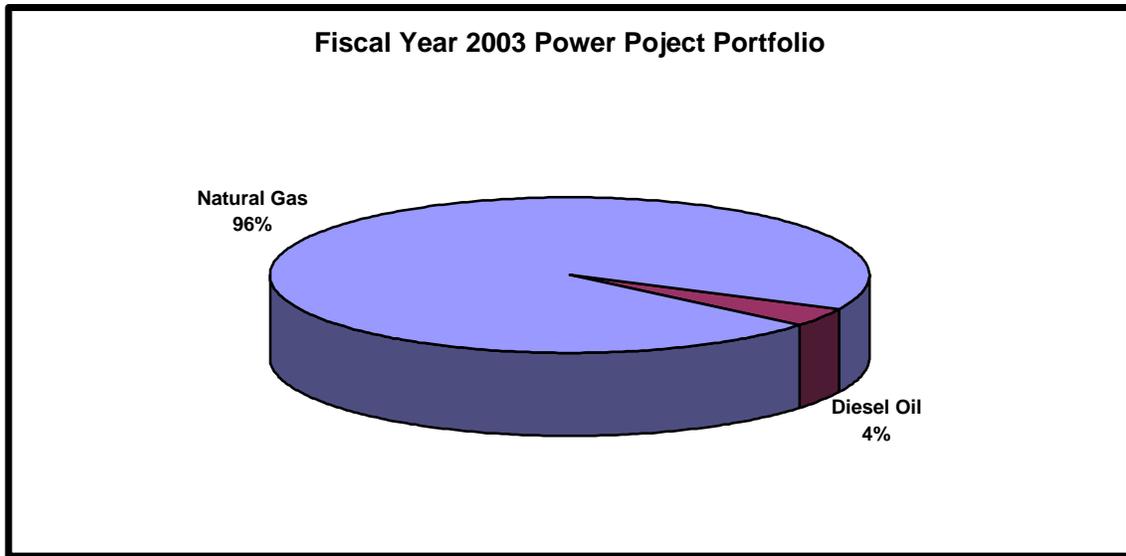


Figure 5

Cumulative Greenhouse Gas Emission Trends

It has been nearly four years since the issuance of OPIC's comprehensive assessment of the cumulative greenhouse gas emissions and impacts of its power portfolio, Climate Change: Assessing Our Actions. That report clearly demonstrated that the OPIC power portfolio was heavily weighted toward climate friendly natural gas and zero carbon emitting hydroelectric power and that OPIC's cumulative portfolio resulted in insignificant climate impacts. During the last four years OPIC's power portfolio has continued to grow, albeit more modestly than during the period leading up to the publication of that report. Moreover, as illustrated in the

following tables, this period saw the OPIC power portfolio growth that reflects a marked increase in gas-fired and pre-existing hydroelectric facilities, and marked reductions in coal- and oil-fired projects. In fact, over the last four years, OPIC’s support of gas-fired projects, as a percentage of OPIC’s cumulative power portfolio, is up 14.12% from 43.9% to 50.1%; hydro is up 10.29% from 24.3% to 26.8%; while coal is down 24.76% from 21% to 15.8%; oil is down 28.77% from 7.3% to 5.2%.

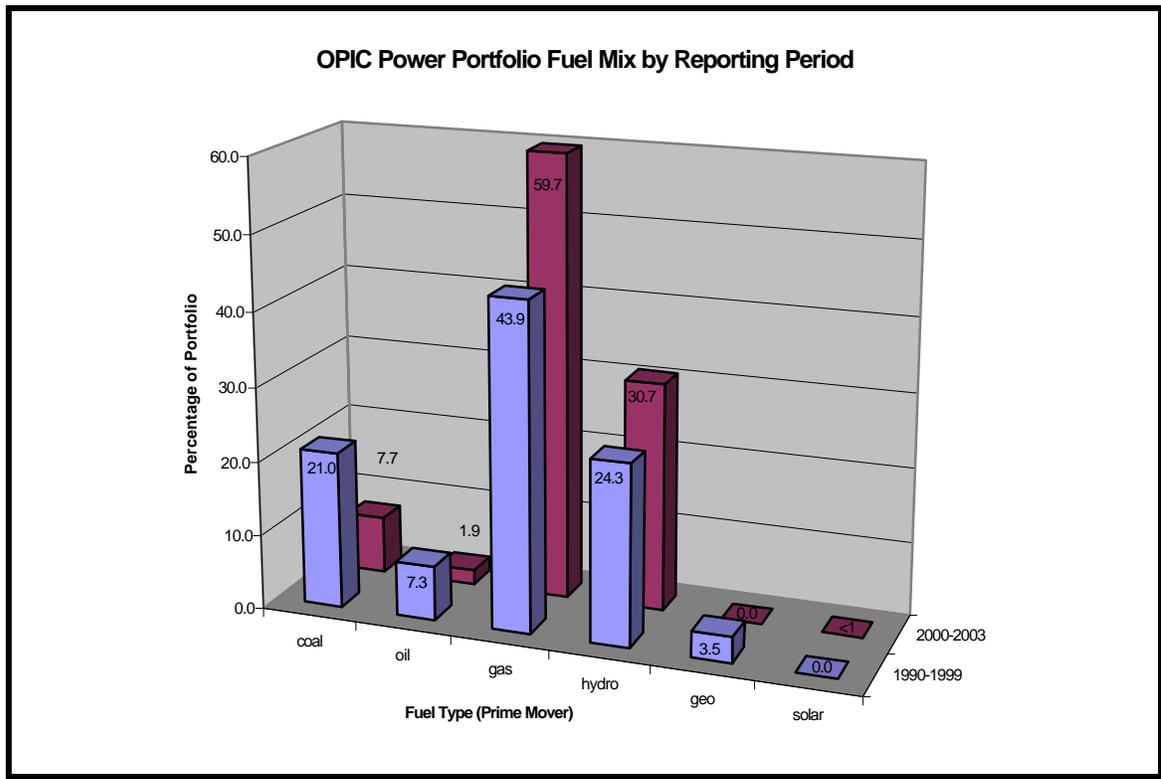


Figure 6

As evident in Figure 6, above, the OPIC portfolio of the last four years shows a marked shift to climate-friendly gas and hydro and away from carbon-intensive coal and oil. Figure 7, below, illustrates the cumulative 1990 – 2003 (inclusive) OPIC portfolio by fuel type.

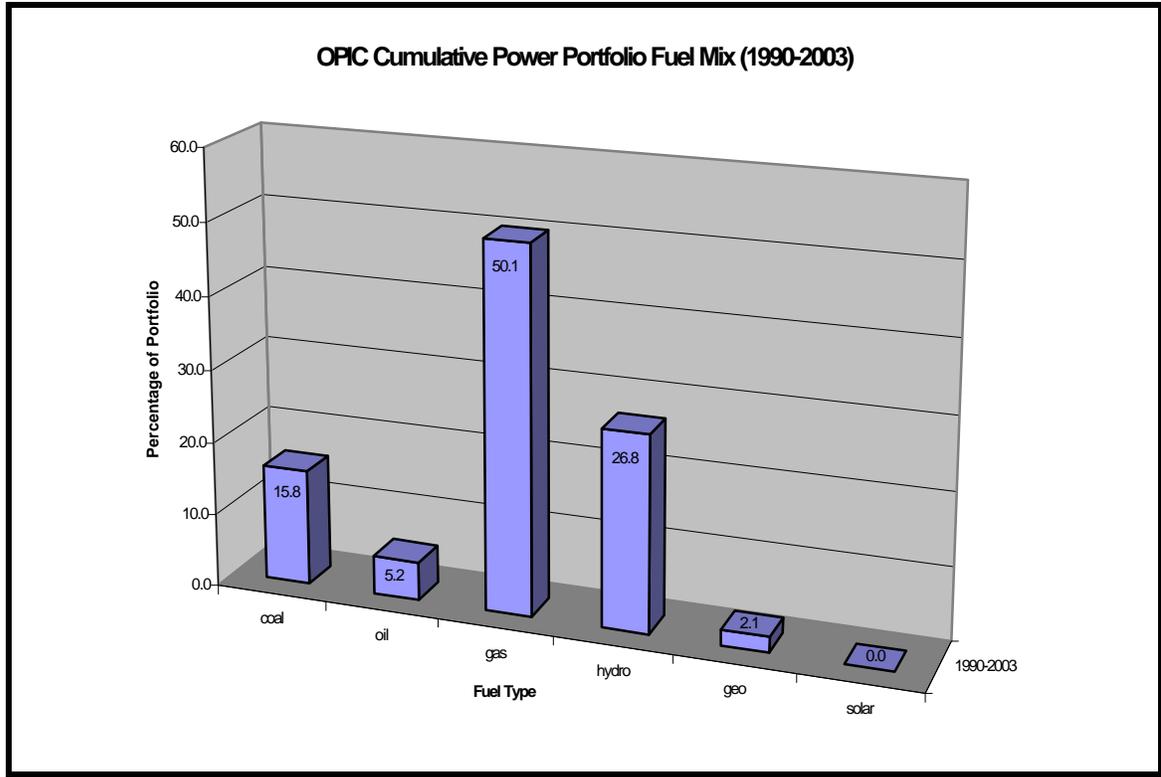


Figure 7

OPIC Methodology: OPIC uses a mass balance methodology, similar to that used by the IPCC, the World Bank, the U.S. Department of Energy and the U.S. Environmental Protection Agency, to quantify CO₂ emissions from its thermal power projects. (There are no significant carbon dioxide emissions from pre-existing hydroelectric or solar power projects.)

As estimates, these calculations may overstate CO₂ emissions for several reasons. Some of the power projects committed by OPIC during Fiscal Year 2003 (and preceding years) have not yet been converted into insurance contracts or loan agreements and therefore OPIC's support for some of these projects is not yet finalized. Reduced demand for power, due to the economic situation that has prevailed in some developing countries over the last several years, may delay such projects or result in their cancellation. The calculations assume full capacity operations, so any departure from this results in over estimation of CO₂ emissions. In addition, the calculations do not take into account CO₂ emissions reductions resulting from the displacement of more carbon-intensive fuels, such as coal and oil, by natural gas or more efficient sources of generation. And finally, in some circumstances, the availability of electric power may reduce reliance on fuel wood, thus reducing deforestation, which is a major greenhouse gas sink.

3. Environmental Policy Developments

During Fiscal Year 2003 OPIC delivered on commitments it had made to the environmental NGO community to revise its policies on forest conservation and support for large dam projects. The revisions disclosed for public comment on July 15, 2003 and adopted in final form in early 2004 responded to important developments in the scientific and stakeholder communities related to conservation of critical forest areas and environmental/social consequences of large dam projects.

With respect to forests, these communities have come around to the view, as has OPIC, that priorities for absolute protection should be based on a number of factors related to forest structure and function. To that end OPIC has revised its categorical prohibition to include “projects that involve conversion or degradation of critical forest areas or related critical natural habitats.”

This does not mean that “primary” or “tropical” forests that were highlighted under the previous version of the prohibition will no longer be considered among the highest priorities for absolute protection, but that other forest types will also be considered for protection – both on an a priori basis and as a consequence of detailed environmental assessments. OPIC believes this approach to forest protection is conservative and consistent with the World Bank Group’s newly revised Operational Policies and Bank Procedures on Forests (OP 4.36) and Natural Habitats (OP 4.04).

With respect to large dams, OPIC has articulated its policies to reflect the findings of the most comprehensive report issued to date by key stakeholders involved in the global debate over the appropriate role of large dams: the World Commission on Dams (WCD). Although not all stakeholders subscribe to all of the conclusions of the WCD report, many of the report’s recommendations are of value to the investment community, and therefore to OPIC as a development finance agency. OPIC’s restated policy should be of value to investors and other organizations that use the WCD report as a primary reference and framework for evaluating prospective hydroelectric and irrigation projects.

OPIC will continue to apply the existing categorical exclusion on large dams contained within the OPIC Environmental Handbook. A more detailed discussion is also presented in the revised Handbook, which describes how OPIC’s existing policies will take into consideration key principles, strategic priorities and guidelines of the WCD report.

Reauthorization Mandates

During FY 2003 Congress through the end of 2007 reauthorized OPIC programs. As part of the process leading up to reauthorization, OPIC’s environmental and social policies were examined as part of an independent appraisal undertaken by the Institute for International Economics (IIE). The IIE report made a number of observations about OPIC’s environmental policies and procedures, noting, among other things that OPIC requirements have often stimulated project sponsors to develop improved environmental practices. Among the recommendations made by IIE and adopted in this report is that OPIC become more

transparent about its environmental criteria by disclosing non-business confidential information about projects that it has declined to support on environmental grounds.

Non-governmental organizations (NGOs) that testified at OPIC's reauthorization hearing before the House International Relations Committee (HIRC) advocated that OPIC establish an independent "accountability mechanism," modeled on the best practices of several international financial institutions (IFIs) such as the International Finance Corporation, regional development banks and some bilateral export credit agencies. In response, OPIC initiated a dialogue with a group of interested NGO stakeholders to explore the parameters of such a mechanism for OPIC.

The HIRC also recognized OPIC's efforts to convene a dialogue with stakeholders on an initiative to heighten transparency and information disclosure about OPIC projects and procedures, consistent with existing statutes. These efforts on accountability and transparency will be ongoing throughout 2004 and the results will be reported in next year's Annual Environmental Report.