

BUDGET REQUEST
Fiscal Year 2004



**Overseas Private Investment
Corporation**

An Agency of the U.S. Government
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**OVERSEAS PRIVATE INVESTMENT CORPORATION
FY 2004 BUDGET REQUEST**

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EXECUTIVE SUMMARY

OPIC's Request in Brief. To effectively carry out its mandate in FY 2004, OPIC requests the authority to spend \$42.4 million of its revenues for administrative expenses. This request includes \$2 million to be used specifically to address OPIC's most important information technology (IT) needs in FY 2004. Minus this proposed IT spending, OPIC's FY 2004 administrative expenses request represents an increase of 1.25 percent above the FY 2003 request.

In FY 2004, OPIC is also requesting \$24 million from OPIC revenues for credit funding, which will support approximately \$800 million in direct and guaranteed loans. Both the subsidy request and the loan level to be supported are unchanged from FY 2003.

The FY 2004 request is for a limitation on amounts to be transferred from OPIC's noncredit revolving fund rather than for a direct appropriation. OPIC will source its credit funding, administrative expenses, and technology expenses from its earnings. This is consistent with past practice and with OPIC's statutory authority to operate as a self-sustaining government corporation and use its own earnings to fund its programs.

OPIC's PART Score. The Office of Management and Budget (OMB) conducted an evaluation of OPIC's Finance Program using the OMB Program Assessment Rating Tool (PART). The evaluation focused on OPIC's Finance Program only, which was rated as "results not demonstrated." (See page 214 of the "Fiscal Year 2004 Performance Management Assessments.")

The Finance Program received "results not demonstrated" because of the way OPIC traditionally measured its performance and set its performance measurement goals. Although OPIC collects developmental data in regards to projects supported by its Finance Department, historically OPIC has not set long-term goals, implemented development outcome measures that satisfied the PART criteria, or set specific developmental goals for its Finance Department. Instead, OPIC has set three annual development goals for the **combined** activity of all OPIC's programs (Finance, Insurance, and Investment Funds). For example, in OPIC's FY 2003 Annual Performance Plan, OPIC's corporate-wide development goal was to meet or exceed 5 year averages in host country employment produced, host country tax revenues generated, and host country local procurement. For these reasons, *the PART methodology resulted in a "results not demonstrated" rating for OPIC's Finance program.*

OPIC has been working with OMB to create a new set of development measures that more completely captures a broad range of developmental effects that were previously unmeasured, establishes long-term goals, and breaks-out development measures by department. This development measurement system, created with OMB input, will provide detailed information on OPIC's development goals by program as well as for OPIC as a whole. The new methodology was approved by OMB in January 2003 and will be incorporated into OPIC's Strategic Plan and 2004 Annual Performance Plan.

OPIC's programs incorporate developmental benefits in the basic structure of all its projects. For example, OPIC's FY 2002 Finance projects are projected to create approximately 5,400 host country jobs. It is also estimated that these Finance projects will make initial procurements of host country goods and services totaling approximately \$1.1 billion. Additionally, these FY 2002 projects will contribute roughly \$116 million per year to host country tax bases. The developmental record of OPIC's Finance program is all the more laudable because the developmental effects generated are free-market based and will be self-sustaining for many years.

OPIC's strategy for continued success can be divided into three parts:

1. *Delivering on our commitments.* OPIC has come a long way in refocusing its activities on projects that are more developmental, based both on the types of projects and the location of those projects. Special emphasis has been placed on the following priority areas:

- Small Business
- Housing
- Russia and Central Asia (including Afghanistan and Pakistan)
- Sub-Saharan Africa
- Mexico

In FY 2004, OPIC will continue to place renewed emphasis on the development aspect of its mission by focusing on the critical needs in these areas. Furthermore, OPIC will use its recently created development effects scoring system to set targets and measure results department-by-department.

2. *Development of new products.* OPIC's effectiveness in assisting developmental projects with financing and political risk insurance is illustrated by the fact that private companies have followed OPIC's lead: private insurance companies now provide political risk insurance coverage; private financial services companies make private risk capital available to those willing to invest in riskier countries. Because OPIC seeks to complement the private sector rather than compete with it, OPIC must continue to reposition itself in the marketplace by developing appropriate new products that will boost the flow of private sector resources to underdeveloped regions, while being consistent with OPIC's authorities, other relevant statutes, and Administration policies. In FY 2004, OPIC will continue to develop appropriate new products that have the potential to correct market failures and enable developmental projects to be realized; projects that would otherwise—but for OPIC's participation—not come into being.

3. *Maximizing additionality on every transaction.* "Additionality" describes the "added value" brought to a project by OPIC participation. Put differently, without OPIC support, the project would not go forward. For example, many developmental projects can only be completed with OPIC assistance, because financing and insurance cannot be found on the private market or cannot be found at terms that make the project sustainable. OPIC will continue to improve its methods for maximizing additionality. Of equal importance, OPIC will continue to improve its ability to measure and document additionality so that it can efficiently prioritize projects and focus agency resources.

OVERVIEW

OPIC's goal is to generate additionality on every transaction.

“Additionality” means that OPIC will ensure its participation “adds value” to every investment that it supports. This means that OPIC will enable the private sector to invest in developmental projects they could not undertake on their own. OPIC facilitates such projects by covering gaps in insurance coverage and financing; by leveraging resources so that additional private and public sector dollars are attracted to developmental projects; and by using its unique position to mitigate project risk.

OPIC has made fundamental changes in the way OPIC does business. In some cases this has meant refocusing the agency on its key policy mandate, and in other cases it has meant striking out in new directions such as developing new products that address the needs created by changing global economic conditions. OPIC programs were also altered by significant foreign policy considerations following the events of September 11, 2001. The overriding concern, however, has been –and continues to be– to turn OPIC into the most efficient mechanism for overcoming market failures that hamper economic development by facilitating the private sector’s involvement in developmental projects.

OPIC is refocused on development

Over the course of FY 2002, OPIC has worked hard to refocus its energy, talent, and resources on its principal mission: “to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies, thereby complementing the development assistance objectives of the United States.”

As OPIC President and CEO Peter Watson stated, the “key priority in refocusing OPIC is to strengthen the agency’s consciousness of its developmental mission and to ensure that OPIC’s products are complementary, not competitive, with the private sector.” He goes on to say that OPIC is in the process of strengthening its “developmental mandate by examining critically each proposed investment in terms of its developmental impact” and that OPIC will refocus its “outreach toward underserved regions like sub-Saharan Africa, as well as countries and sectors where the developmental benefits are likely to be greatest.”

OPIC understands that “the challenge is not static,” meaning that OPIC will have to remain watchful that it is supporting the most developmental projects possible, given changing economic realities and the varying needs of different countries and sectors. However, in the face of this ever-shifting challenge, OPIC is moving forward in several key areas:

OPIC has developed new methodology for measuring the developmental impacts of its projects. The Office of Management and Budget (OMB) conducted an evaluation of OPIC's Finance Program using the OMB Program Assessment Rating Tool (PART). The evaluation focused on OPIC's Finance program only, which was rated as "results not demonstrated." (See page 214 of the "Fiscal Year 2004 Performance Management Assessments.")

The "results not demonstrated" rating was based on OPIC's previous three development outcome measures, and its traditional practice of not setting long-term goals and of tracking and reporting developmental impacts on a corporate-wide level and not at the department level. For these reasons, the PART methodology resulted in a "results not demonstrated" rating for OPIC's Finance program, despite OPIC's estimate that the Finance program's activities in FY 2002 will support nearly 5,400 host country jobs, \$1.1 billion in host country initial procurement, and annual host country tax base enhancements of about \$116 million.

In response to the PART analysis, OPIC's Office of Investment Policy (IP) has recently completed a comprehensive new system for measuring developmental impacts that will be used at the department level and agency-wide. This methodology was approved by OMB in January 2003. This new decision-making tool will both strengthen and simplify the process of evaluating projects by offering a structured, straightforward methodology for identifying key developmental impacts. It will also help underpin OPIC's strategy of building strategic partnerships between private investors, the host governments, and local community-based organizations.

OPIC's scoring matrix weighs each developmental indicator according to its importance in contributing to the economic and social welfare of the host country. OPIC has identified human capacity building, private sector development, and leveraging foreign direct investment as central to fulfilling our developmental mission. In addition, the weighting of indicators also reflects the importance of corporate social responsibility and private-public partnerships. Each OPIC project will receive a comprehensive score and rating based on a weighted total of the individual development indicators.

This new tool will facilitate prioritization of prospective projects according to the expected developmental impact. The methodology will allow cross-country and cross-sector comparison and analysis, improve consistency in the implementation of policy priorities, and lead to better allocation of OPIC resources.

As part of its strategic plan, OPIC has committed to reaching quantitatively measurable performance targets that will demonstrate the developmental impacts of the agency's products and services.

OPIC has communicated that it has re-focused on its development mission. OPIC's Annual Report, entitled "re-focused," was widely distributed to all OPIC stakeholders, including all OPIC clients. The cover featured an open-air market in Guatemala noting: "Making a difference by supporting investment in developing countries." The document opens with a statement from OPIC's President: "My key priority in refocusing OPIC is to strengthen the agency's consciousness of its developmental mission..." In addition to its annual report, OPIC's re-focused message has been widely communicated to its various stakeholders.

OPIC recognizes that close cooperation with its sister agencies is a key element to its success. OPIC regularly communicates with USAID, Export-Import Bank (Ex-Im) and the Trade Development Agency (TDA) to ensure the programs of these agencies complement each other and remain effective. As always, we consult at the VP level and the staff level to prevent duplicating projects and investments. When OPIC, Ex-Im, and TDA work in coordination, they help U.S. businesses use the full range of services these agencies, together, can offer. In recent months OPIC has also signed a memorandum of agreement with the U.S. Small Business Administration (SBA) and has formalized a closer relationship with the Foreign Commercial Service (FCS). OPIC is also active in the Trade Promotion Coordinating Committee (TPCC) and coordinates regularly with the U.S. Trade Representative (USTR).

In particular, OPIC has also recommitted itself to ensuring a productive and cooperative working relationship with USAID and will explore opportunities to institutionalize coordination and cooperation both with USAID headquarters and missions. Our goal is a seamless development strategy that effectively and efficiently leverages the full existing resources of the federal government. While the Administrator of USAID is on OPIC's Board of Directors by statute, it is very important that additional ties be implemented to ensure that USAID and OPIC fulfill their distinct development roles and communicate effectively regarding their activities and plans.

Using development data in the OPIC decision-making process. OPIC has been tracking developmental information since the early 1970s and is able to document host country employment, procurement, and tax benefits generated by OPIC-supported finance and insurance projects. Furthermore, within certain constraints, OPIC has the capability to compare developmental effects between broad business sectors. Beginning in FY 2003 –and as a result of OPIC's cooperative work with OMB regarding development measures– OPIC will ensure that all the projects it supports not only have positive development effects (current OPIC standard practice) but also attain a certain developmental threshold as measured by the developmental matrix that OMB recently approved.

Looking forward to FY 2004

Additionality measurement is an OPIC priority. Beginning in FY 2003 and continuing into FY 2004, OPIC will apply new analytical tools for assuring that a project would not have gone forward but for OPIC's participation. This year (FY 2003) OPIC developed the first-step of a new methodology for measuring project additionality. The next step will be to develop baselines against which progress can be measured. Towards this end, OPIC has instituted a requirement that every new project that OPIC considers for support must now be scored against an "additionality checklist" before it can move forward. The new additionality measurement system is an evolving process that will continue to be enhanced and fine-tuned as dictated by better data and changing circumstances.

Enhancing OPIC's risk management function. Supporting projects that are more developmental also means that OPIC must be prepared to take on more risk. This is because highly developmental projects are often in riskier locations or involve sectors or types of projects that may not be as robust as compared to more traditional OPIC supported investments. Because OPIC is conscious of its obligation to match its developmental mission with its responsibility to operate in the most prudent manner financially, the agency has taken major steps to enhance its risk management capability and integrate risk management into the decision-making process.

- ✓ **Portfolio risk review.** In FY 2002, OPIC initiated regular reporting on the financial health of the agency's portfolio. The report constitutes an agency risk profile and summarizes the number of projects (and the related exposure levels) that are "performing," "watch-listed," etc.
- ✓ **Country exposure limits.** OPIC has developed a methodology to systematically establish country exposure limits for OPIC products. These exposure limits are on a country-by-country basis, taking into account the relative strengths and weaknesses of all the countries where OPIC does business. In addition to country exposure levels, these new parameters, also impact sector and client exposure amounts.
- ✓ **Risk management team staffing.** In FY 2002, OPIC enhanced the analytical capability of the risk management team by adding a Chief Economist and Global Risk Officer to assist the agency in evaluating portfolio and systemic risk.

Modernizing OPIC's Product Line. In addition to the enhancements discussed earlier, OPIC is working towards modernizing its product line in a manner that responds to market needs, carefully considers developmental effects, and complements the private sector, while remaining consistent with OPIC's authorities and all relevant statutes and Administration policies.

Since its creation in 1971, OPIC has been offering traditional finance and political risk insurance products. Over the past three decades the global economic environment has changed dramatically. A revolution in technology now allows funds and information to

flow across borders at a speed and volume scarcely imaginable in the 1970s; private markets have moved into areas once dominated by government; nongovernmental organizations have become sophisticated participants in economic activity and market demand has led to ever more innovative and complex deal structures.

OPIC's product line has not kept pace with the changing international business environment. Because OPIC wishes to complement the private market and not compete with it, OPIC must now reposition itself in the marketplace and once again become an innovator in the development of appropriate new products that enhance private sector participation in developing countries.

Additional OPIC Priorities

The following five areas have been identified as high priority areas:

- Small Business;
- Housing;
- Russia and Central Asia (including Afghanistan and Pakistan);
- Sub-Saharan Africa; and
- Mexico.

As part of its renewed focus on development, OPIC is targeting small business and the housing sector

OPIC continues to focus on small business. OPIC has made significant progress in this area during the last year. An important milestone was reached late in FY 2002, when – after months of work by OPIC and the Small Business Administration (SBA)–the two agencies reached a Memorandum of Agreement that will advance both their missions. In conjunction with this initiative, OPIC launched the Small Business Center to coordinate OPIC expertise for the development of small business deals through a streamlined approval process aimed at reducing costs for U.S. small businesses. With SBA's active participation, OPIC is looking forward to reaching out to many American small businesses that might otherwise have not been aware of OPIC's products and services. To measure the results of its new partnership with SBA, OPIC will track the number of small business deals that come to the agency via contact with SBA. OPIC's focus on small business has already paid off with a high percentage of FY 2002 transactions being small business deals. In FY 2003 and FY 2004, OPIC anticipates that its new relationship with SBA will really begin to bear fruit, and additional time and resources will be devoted to small business transactions.

Few sectors are as developmental as housing. Between two and three billion people in the developing world have inadequate housing. OPIC's focus on housing has broadened from an original emphasis on Central America and the Caribbean to include all countries that OPIC operates in. Equally important, the initiative supports the U.S. government's

Monterrey Initiative, announced by President Bush this past year. Countries that adopt principles of sound governance are the countries most likely to be ready for increased private sector funding in the housing sector. OPIC's participation in this sector brings the full level of U.S. technology and management skills to the overseas housing construction and finance markets, thereby promoting effective housing programs in emerging markets. OPIC hired an experienced professional in the housing sector to oversee the agency's housing activities and to enhance OPIC's ability in this sector. As discussed below, OPIC concluded two significant housing projects in South Africa and is actively pursuing opportunities in Ghana and Kenya.

OPIC's focus reflects U.S. foreign policy priorities

OPIC is open for business in Afghanistan. In direct support of U.S. foreign policy goals, OPIC announced in January 2002 that it would establish an initial \$50 million line of credit to support U.S. investment in Afghanistan. That announcement followed an OPIC co-hosted conference that provided the venue for the first high-level discussion of the U.S. private sector involvement in post-Taliban Afghanistan. The event assembled more than 40 Afghan-American business leaders and senior U.S. officials to outline investment opportunities in the war-torn country.

In May 2002, a delegation representing OPIC and the U.S. Trade and Development Agency (TDA) held an exploratory investment mission to Afghanistan. The mission assessed opportunities in the telecommunications and tourism industries and included meetings with senior Afghan officials. The visit, which took place pre-Loya Jirga, included meetings with the former Minister of Communications, the former Minister of Civil Aviation and Tourism, and the Minister of Reconstruction. U.S. Ambassador to Afghanistan, Robert Finn, also participated in the meetings.

The immediate result of the visit to Afghanistan was a non-binding land lease agreement for a hotel site to be developed in a prime location in Kabul. The 120-day agreement between OPIC and the GOA allowed for the development of a feasibility study and proposal for development of a five star hotel. OPIC has held subsequent meetings with Afghan President Karzai, Minister of Commerce Kazami, Minister of Foreign Affairs Abdullah, Minister of Finance Ghani and other senior members of the government regarding the project. OPIC Executive Vice President Ross Connelly returned to Kabul in January 2003 with members of the investor consortium for final negotiations pertaining to the project.

Although Afghanistan is still technically a war zone, OPIC's efforts are beginning to bear fruit. In February 2003, OPIC provided political violence and expropriation insurance to an Iowa equipment manufacturer for a humanitarian project in Afghanistan, which among other things will support the construction of schools for young girls. In addition, OPIC is in discussions with several infrastructure and other development projects in the country.

OPIC is supporting investment in Pakistan. In February 2002, OPIC's Executive Vice President led a delegation consisting of senior representatives from the Export-Import Bank and the Trade and Development Agency for an Investment and Trade Development Mission to Pakistan. The delegation visited Karachi, Islamabad and Lahore and met with President Musharraf, Pakistani business leaders, as well as other senior officials from the government and business communities.

In January 2002, as part of OPIC's commitment to Pakistan, the OPIC board approved a \$150 million loan agreement in support of a bid for an oilfield privatization in Pakistan. While the U.S. sponsor did not win the bid, OPIC's support helped increase the competition in the bidding.

In May 2002, OPIC's Board of Directors approved a loan guarantee to Citibank for \$100 million as part of the \$300 million line of credit pledged to Pakistan in October 2001. With this facility OPIC and Citibank will leverage their ability to finance projects while helping the bank to expand its medium- and long-term lending in Pakistan. The new facility will also help to alleviate the acute shortage of medium- and long-term commercial financing in Pakistan, a significant obstacle to economic development. In addition, OPIC supported two energy projects and one information technology project.

OPIC continues to explore opportunities in Pakistan and is currently considering transactions in the oil and gas, technology, banking and manufacturing sectors.

OPIC is supporting U.S. foreign policy in Russia and Eurasia. President Bush's meeting with Russian President Vladimir Putin in Moscow and St. Petersburg in May 2002 highlighted support for democracy and economic growth in Russia and Eurasia as an important U.S. foreign policy priority. As a senior U.S. diplomat described it to *Newsweek* magazine (May 27, 2002) "Working with Russia now is in our larger strategic interest.... We can collaborate and promote stability in Central Asia, preventing more radical ideologies from taking root there. It is a win-win for both of us." OPIC has its part to play in this strategy.

During his visit to Moscow, President Bush announced that OPIC would support a private equity fund to stimulate investment in Russia and surrounding regions. Fulfilling the commitment made by the President, in December 2002, OPIC's Board of Directors approved a \$210 million investment fund for Russia intended to support fast-growing businesses in consumer services industries. OPIC will provide a \$70 million investment guaranty to the fund, Russia Partners II, L.P. to be managed by New York and Moscow-based Russia Partners Management. The fund will make direct investments in mid-sized companies that are new, expanding, or in the process of being privatized. The fund manager was selected through a competitive process and is the first OPIC fund to be established under new OPIC guidelines by which the agency has reduced its support from two-thirds to one-third of the funds total capital. Russia Partners will be obligated to raise the remaining \$140 million of the fund.

OPIC provided \$777,000 in political risk insurance for a U.S. small business to expand its optical components manufacturing facility based in St. Petersburg in August 2002.

International Scientific Products Corporation (ISP) produces optical components and will create 20 local jobs in Russia, as well as tax revenue for the country, and ISP has ensured that senior management of the foreign enterprise receive MBA coursework and that its opticians receive professional training in the United States.

In November 2002, OPIC committed to provide a \$30 million loan to Russia's leading micro- and small- finance bank, Small Business Credit Bank (KMB Bank), enabling KMB Bank to make small loans to micro, small and medium sized customers investing in Russia. Sponsored by the Soros Economic Development Fund (SEDF), the OPIC loan will be used for short and medium-term financing of projects involving investment in industrial and production facilities for its micro and small-sized customers. KMB Bank will also offer working capital financing as well as financing of production equipment. KMB loans will range in size from \$200 to \$300,000.

OPIC continues to examine areas where it can increase FDI in Russia. It currently is exploring possibilities in the oil and gas sector, housing, agribusiness, manufacturing and other key areas. Additionally, OPIC is exploring the possibility of working with a major Russian Bank to facilitate American private investment in Russia and Eurasia.

Sub-Saharan Africa is an OPIC priority. In 2002, OPIC finance and insurance commitments in Sub-Saharan Africa (SSA) equaled \$471.5 million; equity investments through OPIC-supported equity funds totaled \$20.5 million.

SSA continues to be burdened by critical economic and social development needs and challenges, yet the region offers a tremendous wealth of opportunity for trade and investment. SSA is a priority region for OPIC, and it sees investment and insurance opportunities opening up in countries committed to democracy and open market principles.

OPIC supported projects—even those that seem relatively small—bring significant developmental impact as well as economic value, thus ensuring their sustainability. Examples of some of these projects include:

In its first housing initiative in Africa, OPIC has provided a \$15 million guaranty to help build 90,000 homes for low-income families, providing shelter for up to 500,000 people. Also in South Africa, OPIC is providing a \$250 million direct loan to assist mortgage holders with HIV to maintain homeownership and occupation through the provision of appropriate treatment.

In Mozambique and Malawi (with plans to build out into Zambia), OPIC is providing up to \$30 million to develop and rehabilitate the railway and port facilities—providing a less expensive alternative to Durban, South Africa for moving goods from land-locked countries and a less costly, means of transporting essential food aid to famine-stricken countries.

OPIC is providing \$10 million in support to extend the Vilanculos Coastal Wildlife Sanctuary by 17,000 hectares—more than 50 percent—and develop its tourism potential

through the addition of new lodging. The Sanctuary is home to several endangered species. Later this year, indigenous species such as buffalo and hippo will be reintroduced. In addition, the project will support the local community through the provision of jobs, a clinic, school and housing for local staff.

In Kenya and Ghana, OPIC has provided \$300,000 to Living Water International (LWI), enabling it to purchase drilling equipment to significantly expand its ability to drill new water wells. This program includes not only drilling wells for communities but also training local citizens how to drill and maintain the wells, pumps and storage tanks, giving them basic hygiene as well as proper food preparation guidelines.

Finally, OPIC supported its first project in Chad this past year. SSA will continue to remain a central focus of OPIC activity in FY 2003 and FY 2004.

Mexico's economic health is important to U.S. strategic interests. As an active participant in the Partnership for Prosperity initiative, OPIC has focused its efforts on Mexico. Mexico is one of America's largest trading partners, with a fast-growing economy of 100 million consumers whose bilateral trade with the U.S. exceeded \$250 billion in 2001. Strong demand exists for OPIC assistance in Mexico. For many small- and medium-sized U.S. businesses, Mexico offers the best opportunity for expansion into the global economy. Currently OPIC is assisting U.S. small businesses with direct loan financing to assist them as they enter the Mexican market.

OPIC is working closely with the State Department and the Department of Commerce on the third Partnership for Prosperity event to be held during the summer of 2003. In addition, OPIC is planning to sponsor an investment conference in Arizona this spring focusing on small businesses currently or considering doing business in Mexico. OPIC is also working closely with Nafin, the Mexican domestic development bank, on small business projects.

Additionally, OPIC is planning to work with the U.S.-Mexican Chamber of Commerce and other entities to participate in events to raise awareness of OPIC's ability to support developmental projects in Mexico. During FY 2002, OPIC took a leadership role in a taskforce that is considering ways to enhance the private equity market in Mexico. OPIC's support for U.S. sponsored private sector projects in Mexico furthers U.S. foreign policy goals for the region and has the potential to advance Mexican privatization initiatives.

Conclusion

OPIC has made fundamental changes in the way it conducts business. Most importantly, this has meant that OPIC has refocused itself on its developmental mission and taken steps to ensure that each project, but for OPIC's support, would not come to fruition. OPIC has also made progress in FY 2002 by establishing an additionality checklist for projects and improving its ability to measure, verify, and report additionality. In FY 2003 and FY 2004, OPIC will continue to strengthen its ability to measure development effects and additionality, thereby making it possible to prioritize projects and direct resources based on improved additionality and development impact information.

An important requirement for maximizing the effectiveness of all U.S. Government development programs is a continuing commitment to quality communication between agencies. Beginning immediately, OPIC intends to improve its efforts to communicate and coordinate effectively with USAID, Export-Import Bank and the Trade Development Agency with the goal of complementing its sister agencies. When OPIC, USAID, Ex-Im, and TDA work in coordination, they help U.S. businesses use the full range of services these agencies, together, can offer.

At the same time that OPIC is emphasizing its development mission, the agency is also taking a strategic view of the best ways to update its products to ensure that the agency stays relevant and continues to meet the tangible development needs of a rapidly changing world.

OPIC's FY 2004 REQUEST

Administrative expenses request

**OPIC's FY 2004 Administrative Expenses Request
(Dollars in millions)**

	FY 2004 Request
Core Administrative Expenses	\$40.4
Technology Improvements	\$2.0
Total Request:	\$42.4

In FY 2004, OPIC is requesting a total of \$42.4 million in administrative expenses. This request includes \$40.4 million for OPIC's core administrative expenses plus an additional \$2 million in FY 2004 funds to implement much needed improvements to OPIC's information technology.

1. Core administrative expenses

Administrative Expenses, Appropriation History, and OPIC's Core Administrative Expenses Request for FY 2004				
(Dollars in thousands)	FY 2001	FY 2002	FY 2003	FY 2004
Base level:	\$38,000	\$38,608	\$39,885	\$40,385
Information technology:	0	0	0	\$2,000
Total:	\$38,000	\$38,608	\$39,885	\$42,385

OPIC is requesting a modest increase for administrative expenses in FY 2004.

For FY 2004, OPIC is requesting \$40.4 million for baseline administrative expenses, an increase of 1.25 percent. This level of funding will allow OPIC to maintain its base activity level, while at the same time directing additional resources to its small business initiative and placing increased emphasis on policy concerns such as risk management and on targeting regional and sector projects. OPIC has made significant improvements to its management processes in FY 2002 that enable the agency to document improvements in efficiency:

- In late FY 2002, OPIC completed its first Human Resources Accountability Plan. This plan sets out a general framework for reviewing the efficiency and effectiveness of workforce management and measures progress toward achieving corporate strategic goals. The plan forges a partnership between the human resources staff and top managers and line management to ensure the effective use of OPIC staff. The cascading of responsibility for human capital management has also been reinforced through recent changes in OPIC's performance culture which include management training on how to develop measurable, results-oriented standards that support the agency operating plan. Strategic management of

human capital remains a top priority, and OPIC will continue to make progress in this area in FY 2003 and FY 2004.

- In April 2002, OPIC implemented Comprizon.buy, a powerful automated procurement system. Processing procurement requisitions through the new system facilitates enhanced budgetary monitoring of funds because all funded requisitions now require review and approval by the Budget Officer and funds certifying official before contract award. This undertaking demonstrates a significant improvement in the level of cooperation and coordination among OPIC's contract administration unit, financial management unit, and information resources unit.
- The OPIC Purchase Card program was updated during FY 2002 to ensure that purchase cards are used appropriately. All purchase cardholders and approving officials completed purchase card training, each purchase cardholder was provided a written delegation of procurement authority, and the Purchase Card Guide was updated and published on the OPIC Intranet.
- Legal Affairs designed and implemented an efficient system to procure outside legal counsel for OPIC's complex transactions. This system increases competition in procurement of outside legal counsel and allows for better monitoring of outside counsel costs. Legal Affairs collects data that fosters transparency and enables the agency to better monitor costs and cycle time. To increase competition, Legal Affairs has expanded its outside counsel source list and developed a set of minimum criteria that must be met.

2. Information Technology Improvements

In addition to requesting \$40.4 million for base level administrative expenses, OPIC is requesting an additional \$2 million in administrative funding in FY 2004 for information technology (IT) improvements. OPIC's ability to safeguard the interests of the American taxpayer depends in part on its ability to effectively and efficiently manage its portfolio and to provide necessary technological capabilities to its staff. OPIC has begun to upgrade its systems in FY 2003, but will require an additional \$2 million in FY 2004 to integrate its financial systems and institute an e-records system. These important initiatives are further described below:

IT Initiatives for 2003

- Upgrade and standardize the network server operating systems (Windows 2000)
- Upgrade cable plant, switches, and routers
- Further develop e-government OPIC business applications
- Implement Enterprise portal
- Start an e-records management program
- Integrate legacy applications

- Upgrade Travel Manager and Comprizon to Oracle
- Develop financial interfaces (Travel Manager/Comprizon) for Oracle Financials

Future IT initiatives and supplemental funding request for 2004

FY 2004 – core business information system integration. It is expected that by FY 2004, the current finance system used to enter insurance, funds, and finance loans will be at the end of its life cycle. In accordance with OPIC's Enterprise Architecture plan (EA), each of the core business information systems will be re-engineered to eliminate duplicate functionality and redundant data and to provide a common Enterprise data repository independent of the host application. In this way, data that is common across all applications will exist as a single instance. This migration and conversion is being performed in several phases. The first and second phases, which have already begun, concern the development of the EA and the identification of core business information systems to be migrated and standardized. The third phase, which will start in FY 2003, will be the analysis phase. For this phase, OPIC will hire contractors to perform data modeling, develop entity relationship diagrams, and develop a normalized data model which will provide consistency of data elements and eliminate redundancy. By the end of FY 2003, a design of the Enterprise data repository should be complete. In 2004, OPIC requests an additional \$1.5 million to start the conversion of the applications. It is estimated that this effort will take 18 months to complete.

FY 2004 – e-records implementation. In FY 2003, OPIC will contract with a vendor to develop an e-records concept of operations. The study and evaluation will also make technology recommendations related to hardware and software and be used to assist in the implementation. We expect the migration from paper records to electronic format to begin in FY 2004. The \$500,000 supplemental funding requested for FY 2004 will provide the labor and expertise needed to continue the effort of scanning and indexing agency records into a database and proliferate the activity throughout the rest of the corporation.

The grand total requested for IT improvements in FY 2004 is \$2 million.

Credit Funding Request: Direct Loans and Loan Guaranties

For FY 2004, OPIC requests \$24 million in credit funding to support approximately \$800 million of direct loans and loan guaranties at an average credit funding (subsidy) rate of 3 percent. The \$24 million request is the same as requested in the FY 2003 budget. With the exception of FY 2002, when no credit funding dollars were authorized due to the availability of carry-over funding, OPIC has been authorized \$24 million in credit funding in every year since FY 2000.

The \$800 million loan level supported by the \$24 million in credit funding and the overall subsidy rate are unchanged from OPIC's FY 2003 request to Congress. The dollar level of the loans committed is highly variable based on the mix of projects in the pipeline in FY 2004 and on global economic and political conditions. OPIC's overall subsidy rate reflects OPIC's continuing commitment to supporting projects in difficult locations and sectors, where developmental projects are most needed. In FY 2002, 53 percent of the projects that OPIC supported were in the world's least developed countries. This emphasis on more highly developmental locations and sectors will continue in FY 2004 with OPIC placing special emphasis on areas such as Sub-Saharan Africa, Russia, and central Asia –including Pakistan and Afghanistan. OPIC's on-going emphasis on small business also contributes to the overall subsidy rate of 3 percent. In FY 2004, OPIC anticipates that approximately 60 percent of its new finance commitments in FY 2004 will be small business projects, which are traditionally higher risk than larger infrastructure projects.

PROGRAM SUMMARY

OPIC Political Risk Insurance

Introduction. OPIC provides political risk insurance to mitigate the risks faced by U.S. investors in emerging markets and developing economies. Insurance is available for up to 20 years for new investments in new projects or expansions of existing projects. OPIC protects against the risks of inconvertibility, expropriation, and political violence and insures different types of investments, such as equity, third party and related party debt, technical assistance, and covered property. OPIC also has specialized programs for investments made by contractors and exporters, investments in the oil and gas industry, infrastructure projects, small business projects, and capital markets transactions.

Regional Trends. In FY 2002, OPIC saw continued high activity in Latin America, with growing demand for coverage in Central America and the Caribbean. New coverage was issued to U.S. small businesses investing in Nicaragua, El Salvador, Guatemala, and the Turks & Caicos. This positive trend will help balance OPIC's portfolio within Latin America and increase OPIC's exposure in countries other than Brazil and Argentina, where OPIC's exposure is the highest. OPIC has some capacity remaining in Brazil, where there is ongoing demand, particularly from banks, for inconvertibility insurance coverage. Remaining capacity in Brazil will be used for projects that are most consistent with OPIC's developmental mandate and can best leverage OPIC's resources. OPIC is not processing new applications in Argentina pending stabilization of the political and economic conditions in that country.

OPIC is beginning to see an increase in applications for projects in Asia. OPIC executed three new projects in Pakistan, a country of great importance to the U.S. Government. OPIC also issued coverage for projects in the Philippines, Indonesia, and Sri Lanka. This increase in activity in Asia is based in part on significant efforts over the past few years focused on developing a pipeline of business in Asia and is expected to continue into FY 2003.

Africa continues to be an area of opportunity for OPIC, given the challenges of investing in this region. While large companies are interested in developing infrastructure, of particular note is the continued interest and participation of small U.S. companies in projects in Africa. Both active applications and the pipeline of registrations are up markedly for this region, including closed transactions in Chad, Nigeria, Togo, and Angola.

OPIC supported the investment of a U.S. small business in Russia in FY 2002 and OPIC is dedicating resources to developing business opportunities in Russia and Southeast Europe. The stabilization of the Russian economy and the improving bilateral relationship should result in more business for OPIC in FY 2003 and 2004. In Eastern and Southeastern Europe, OPIC completed two transactions with small business investors in Moldova and received applications for projects in Serbia, Croatia, and Bosnia. In

FY 2003 OPIC also expects to support the Baku-Tbilisi-Ceyhan Pipeline project, which will complement foreign policy objectives by developing an additional alternative to Middle Eastern oil.

Business Trends. OPIC anticipates a slight increase in the number of executed new projects, based on an increase in the number of active applications in the pipeline compared to that of the last two years. A minimal amount of this increased activity can be directly attributed to the events of September 11, despite a heightened awareness of political risks. Most of the activity results from business development efforts focused on countries, regions, and small business opportunities where OPIC can complement rather than compete with what is available in the private market. A few new projects, in fact, have been brought to us by private market insurers who are uncomfortable with taking on, without OPIC's assistance, the degree of risk in some countries.

OPIC's emphasis on small business has paid dividends this year in increased interest and activity from that sector. Moreover, the creation of the Small Business Center in OPIC will facilitate increased insurance support for small business. OPIC staff dedicate considerable time to helping small business investors understand OPIC's insurance products as well as other insurance and financial products available in the market. The benefit to small companies from working with OPIC is that they can access other resources of the U.S. government and have the comfort of knowing the support of the U.S. government is behind them.

Development of new products and cooperation with private insurers. One of OPIC's objectives is to support the continued development of the private insurance market and leverage private sources of insurance to the maximum extent possible. The severe insurance and financial market resulting from the events of September 11 has created a need for a systemic and clearly defined relationship with the private sector that will result in a more complementary approach beneficial to all investors. OPIC seeks ways to support the private insurance market that will help modify negative market trends and create reliability of available capacity, which will in turn help to stimulate greater U.S. private investment overseas. One way OPIC is doing this is by providing private insurers an opportunity to participate in OPIC transactions. Investors who apply for coverage are required to seek it first from the private market before OPIC will commit to covering the project. If the coverage is insufficient in the private market, OPIC will seek to support the private market on either a co-insurance or reinsurance basis. Only if the private market is unavailable or unacceptable will OPIC consider coverage of the entire amount requested.

OPIC is willing to cover the expansions of existing investments when such support is unavailable in the private market due to market conditions and when such support is consistent with OPIC's developmental and foreign policy objectives. OPIC is also helping to stabilize investment by responding to the reduction in insurance coverage available in the private market for terrorism and war risks. OPIC's political violence coverage, which includes coverage against terrorism, is available for any eligible project even if no other coverage is purchased.

Product development will continue to be an important priority, as investor needs change and become more sophisticated, making traditional political risk insurance products less relevant. OPIC must recognize and respond to, within the bounds of its statutory authority, the legitimate needs of investors in order to fulfill its mission of mobilizing and facilitating investment in difficult markets. OPIC also needs to be market sensitive and assist and partner with the private market by responding to situations where it is not comfortable assuming all of the political risk alone. Having OPIC participate in risky projects will make the private market even more viable and responsive in the future.

FY 2003 and FY 2004 Insurance Activity. In FY 2003 OPIC expects to underwrite approximately \$1.3 billion in new aggregate insurance coverage and execute approximately 20 to 25 new projects. In FY 2004 OPIC expects to underwrite approximately \$1.5 billion in new aggregate insurance coverage and execute approximately 23 to 28 new projects.

Summary of Insurance Request

Insurance Program Activity (in millions of dollars)	<u>2001 actual</u>	<u>2002 actual.</u>	<u>2003 est.</u>	<u>2004 est.</u>
Outstanding (MIA), start of the year	\$20,623	\$15,191	\$11,883	\$10,174
Issued (MIA) during the year:	\$1,065	\$1,222	\$1,300	\$1,500
Reductions and cancellations:	<u>(\$6,497)</u>	<u>(\$4,530)</u>	<u>(\$3,009)</u>	<u>(\$2,572)</u>
Outstanding (MIA), end of year:	\$15,190	\$11,883	\$10,174	\$9,102

Status of Insurance Authority	<u>2001 actual</u>	<u>2002 actual.</u>	<u>2003 est.</u>	<u>2004 est.</u>
Statutory authority limitation	\$29,000 *	\$29,000 *	\$29,000 *	\$29,000 *
Maximum contingent liability (MCL), end of year:	\$8,246	\$6,908	\$5,186	\$4,663
Current exposure to claims (CEC), end of year:	\$5,324	\$4,829	\$3,035	\$2,729

	<u>2001 actual</u>	<u>2002 actual.</u>	<u>2003 est.</u>	<u>2004 est.</u>
Insurance Premium Revenue:	\$63	\$54	\$51	\$47

* This is a combined insurance and finance limitation; OPIC monitors issuance and runoff to stay within the limitation on an aggregate basis.

Insurance Definitions

Aggregate Maximum Insured Amounts (MIA)

Aggregate MIA is OPIC's primary measurement of issuance. It reflects the face value of all coverage issued. Premiums are generally computed based on this amount.

Maximum Contingent Liability (MCL)

MCL is the basis used to measure OPIC's outstanding insurance, which is limited by the statutory authorization in the Foreign Assistance Act. Under most outstanding OPIC contracts, investors may obtain all three coverages--inconvertibility, expropriation, and political violence--but aggregate claim payments may not exceed the single highest coverage amount for each contract. The measurement of MCL is limited accordingly.

Current Exposure to Claims (CEC)

Actual exposure to claim payments is less than total outstanding insurance as measured by MCL, because insured investors elect "current" coverage levels that reflect the current value of their investment, which may be significantly below their maximum insured amount. Current exposure to claims is based on the assumption that the coverage under which a claim would be brought would be the coverage with the highest amount of current insurance in force.

OPIC Finance

OPIC provides financing to U.S. businesses that are looking to expand their operations into the developing world. OPIC support takes the form of loans and loan guaranties that are available for medium to long terms. These amounts and terms are generally not available from private financial institutions in the United States or in the host countries due to economic factors/market imperfections that make financing difficult to obtain in the developing world. OPIC's products are available in over 150 countries, including regions, countries, and sectors of strategic importance to the United States. All OPIC supported projects must be financially sound, promise significant benefits to the social and economic development of the host country, and have no significant adverse impact on the U.S. economy.

PART Evaluation. The Office of Management and Budget (OMB) conducted an evaluation of OPIC's Finance Program using the OMB Program Assessment Rating Tool (PART.) The evaluation focused on OPIC's Finance program only. The PART findings noted that "The assessment indicates that the (OPIC Finance) program generally manages its resources well..." Additionally, the report states that "The program regularly monitors the credit-worthiness of its finance portfolio, and OPIC consistently receives a clean audit opinion." Despite these observations, the PART methodology resulted in a "results not demonstrated" rating for OPIC's Finance program because OPIC did not set long-term goals, implement development outcome measures that satisfied the PART criteria, or set specific developmental goals for its Finance Department.

OPIC has been tracking the employment, host country revenue, and local procurement effects of the Finance program since the early 1970s. The record is commendable. For example, in FY 2002 OPIC's Finance department supported projects by providing financing for water projects in Ghana and Mexico, machine spare parts distribution in Angola, agriculture in Ecuador, a medical testing facility in Ethiopia, a low income housing project in South Africa, and tourism development in Thailand and Mongolia, among other projects. The number of host country jobs projected to be created by OPIC's FY 2002 Finance projects is nearly 5,400. It is also estimated that the Finance projects that OPIC supported in FY 2002 will make initial procurements of host country goods and services totaling approximately \$1.1 billion. Additionally, these FY 2002 projects will contribute roughly \$116 million per year to host country tax bases.

U.S. Small Businesses. The creation of the Small Business Center has allowed OPIC Finance to visibly make support of U.S. small businesses a high priority. This program streamlines the review and approval processes for U.S. small businesses that are entering or expanding into international markets, allowing qualifying companies to more quickly offer their competitive services and products in developing regions. One such industry sector that has requested financial support in overseas markets is the franchise sector, which is currently dominated by U.S. small businesses. OPIC Finance has modified old and created new programs designed to meet the needs of U.S. franchisers when they decide to expand.

Special Initiatives. In an effort to reach out further to small- and medium-size enterprises, OPIC has begun a formal arrangement with financial institutions that have existing middle-market clients with an international orientation. Many financial intermediaries have set, cross-border limitations that restrict additional loans to certain areas. By expanding the amount of available capital, OPIC will be making available long-term, commercial-based financing to a greater number of companies at home. Great efforts have been taken to ensure that the projects supported abroad meet stringent credit criteria, encourage local development, and further U.S. economic expansion.

Infrastructure. OPIC continues to support many large-scale projects in the belief that the provision of electricity, water, housing for low and middle-income residents, and business services are important components of development. The availability of these services provides the foundation for a healthy developing economy. U.S. businesses are in a position to contribute their long-term experiences in these industries.

Program activity in FY 2004. In FY 2004, OPIC anticipates total new commitments (including investment funds) of approximately \$800 million. This number is highly variable based on the mix of projects in the pipeline in FY 2004 and on global economic and political conditions. (Please see the second footnote to the table on page 26 for a detailed description of commitment levels and budget planning assumptions.) OPIC assumes that approximately 60 percent of the projects committed in FY 2004 will be small business projects. In FY 2004, OPIC expects to see activity in such areas as natural resource processing, clean energy, communications, and housing. The expansion of business services will help to advance the economies of developing countries.

OPIC Investment Funds

Overview. OPIC Investment Funds Program is designed to support the creation and capitalization of long-term, private direct equity funds that invest in the development, expansion, or privatization of small- and medium-sized businesses in emerging market economies that otherwise cannot attract sufficient investment capital. OPIC provides support to equity investment by partially capitalizing investment funds with loans or loan guarantees on a senior, secured basis. The funds pay OPIC fees, a risk premium, and a share of the profits that collectively are designed to cover the risk to OPIC for its loan or loan guaranty. OPIC has appreciably less risk than the private equity investors, since all cash distributions from the funds must be used to pay accreted interest and principal on the OPIC-guaranteed debt before the equity investors receive a return on their investment. All investment funds abide by OPIC statutory requirements and their portfolio investments are subject to the same standards that any OPIC finance or insurance project is required to meet.

Since the inception of the investment fund program through FY 2002, OPIC will have initiated, structured, and negotiated loan and loan guaranty commitments to 30 privately-organized, privately-managed investment funds, with an aggregate OPIC exposure of \$2.7 billion. These funds have invested in 386 new, expanding, or privatizing, businesses (with approximately 90 percent being small- and medium-size businesses.) OPIC-supported funds have mobilized more than \$2.3 billion of private capital from sophisticated institutional investors. For many of these investors, the OPIC-guarantee supporting these funds was the key criteria in their decision to invest in the overseas emerging markets. To date, OPIC funds have prepaid \$360 million in loan and loan guaranties (20% of OPIC's total drawn commitment), and OPIC has received \$4.8 million in net profit participation.

FY 2002 Activity. OPIC completed a comprehensive review of the funds program that thoroughly analyzed all aspects of the way funds are structured and monitored, as well as their performance to date. On the basis of that review, and in concurrence with its stakeholders, OPIC implemented a new fund structure, enhanced its competitive selection process, and improved the financial structure and oversight of OPIC supported investment funds. Subsequent to completing its review, OPIC announced its first call for proposals under this new regime for a \$210 million fund for Russia. Pending the success of this fund under OPIC's new structure and governance, OPIC, with concurrence of its stakeholders, intends to implement a well thought out strategy for additional funds in FY 2003 and FY 2004 as described below.

In FY 2002, OPIC successfully targeted equity capital to the Caucasus region by closing down a dormant commitment to a fund confined to only that region and simultaneously expanding the geographic scope of the Southeast Europe Fund to include the Caucasus countries.

In FY 2002, OPIC received, analyzed, and processed approximately 30 new applications for investments and more than 12 disbursements totaling \$105 million. In addition, the funds prepaid \$73 million of principal outstanding during FY 2002.

FY 2003 and FY 2004 Activity. Concurrent with the funds program review, OPIC engaged Cambridge Associates (CA) to analyze OPIC's fund exposure and prepare asset allocation recommendations for its consideration. CA's recommendations were based on OPIC's new fund structure and other important market factors including: market opportunity and demand, OPIC's experience, availability of limited partners, need for vintage year diversification, geographical diversification, performance monitoring, and investment strategies.

OPIC anticipates committing \$70 million to the new Russia Fund in FY 2003. In addition, it is anticipated that the initial capitalization of the Africa Millennium Fund will occur during FY 2003. In keeping with the findings of Cambridge Associates, new funds are also in development for FY 2003 and FY 2004. In FY 2004, the number of new funds is anticipated to be higher than in recent years, but it is expected that the size of OPIC's commitment per fund would be, on average, lower than past OPIC funds. Nevertheless, OPIC would like to retain the flexibility to consider commitments that differ somewhat from the standard model if necessary to support important foreign policy objectives. It is anticipated that in FY 2004, OPIC's commitments to investment funds could be as high as \$250 million.

Summary of combined Finance and Investment Funds Request*

<i>(\$ millions)</i>	Approved FY 2001	Approved FY 2002	Requested FY 2003	Requested FY 2004
Credit Funding BA Approved (2 year authority)	\$24	\$0*	\$24	\$24
Expected Credit Activity	Actual FY 2001	Actual FY 2002	Estimated FY 2003	Estimated FY 2004
Total New Commitments	\$905	\$855	\$820	\$800 **
Total Finance Portfolio	\$6,138	\$6,193	\$6,313	\$6,418
Active Projects in Finance portfolio	105	125	140	150
Number of New Projects	22	26	30	35

* No new credit funding was authorized for FY 2002. However, \$19 million in FY 2001 funding carried forward into FY 2002 and was available for commitment in that year. No subsidy carried forward into FY 2003, and OPIC does not anticipate having prior year funding available in FY 2004.

** \$800 million commitment level is approximately the same number as in last years' request. This is an estimate based on \$24 million in credit funding applied at an estimated over-all credit funding rate of 3 percent. This over-all subsidy rate is based on a policy decision to more closely focus on projects in least developed countries and sectors where development impacts will be greater, but associated risks will also be higher. Additionally, OPIC is in the process of implementing its new small business center which will significantly increase the percentage of small business projects committed. Since small business projects traditionally carry higher risks, this also contributes to the higher over-all credit funding rate projected for FY 2003. Actual loan levels and subsidy rates in FY 2004 may vary depending on the specific credit and risk profiles of the projects committed in that year. Additionally, the demand for OPIC's finance and investment funds products may be driven upward or downward by global economic and political events.

Summary of OPIC's FY 2004 Request

From its estimated \$321 million in FY 2004 gross offsetting collections, OPIC requests the following uses:

- ✓ ***\$42.4 million for Administrative Expenses** (\$39.9 million appropriated for FY 2003.) This includes \$40.4 million for OPIC's core administrative expenses needs (a 1.25 percent increase above the FY 2003 level), and an additional \$2 million in FY 2004 specifically targeted at improving OPIC's technology. OPIC's top technology priority is to implement an integrated financial system to improve reporting and facilitate enhanced risk management.*
- ✓ ***\$24 million for Credit Funding** (\$24 million appropriated for FY 2003) to support approximately \$800 million in new direct loans and loan guaranties, utilizing a 3 percent subsidy rate. The \$800 million commitment level and the 3 percent over-all subsidy rate are unchanged from OPIC's FY 2003 budget request to Congress. The 3 percent subsidy rate is based on a policy decision to concentrate on supporting projects in the least developed countries and the neediest sectors. The dollar level of the loans committed is highly variable based on the mix of projects in the pipeline in FY 2004 and on global economic and political conditions.*
- ✓ *No direct appropriations; rather, OPIC's request is for authority to transfer funds from its own revolving fund to cover all FY 2004 expenditures (the same as approved FY 2003.)*
- ✓ ***OPIC's self-sustaining status.** OPIC-generated revenue from its private users and other sources will allow the agency to make a positive contribution of an estimated \$198 million in net negative budget authority to the International Affairs budget in FY 2004. This amount offsets other requirements in the International Affairs budget.*

OPIC's FY 2004 BUDGET REQUEST IN HISTORICAL CONTEXT				
(\$ millions)	FY 2001	FY 2002	FY 2003	FY 2004
	<u>Actual</u>	<u>Actual</u>	<u>Estimated</u>	<u>Request</u>
<u>Offsetting Collections</u>	(314)	(308)	(321)	(321)
<u>Administrative Expenses Funding</u>				
Core Administrative Expenses	38.0	38.6	39.9	40.4
Technology Improvements	-	-	-	2.0
Southeast Europe SEED/NIS transfer	0.6	0.5	0.5	-
Total	38.6	39.1	40.4	42.4
<u>Credit Funding</u>				
Total	24.0	-	24.0	24.0
Rescission	-0.1	-	-0.3	-
<u>Grand Total</u>	62.5	39.1	64.1	66.4

OPIC CONTRIBUTION TO INTERNATIONAL AFFAIRS BUDGET (Function 150)	FY 2001	FY 2002	FY 2003	FY 2004
	<u>Actual</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Request</u>
Net Negative Budget Authority	(206)	(221)*	(214)	(198)
Net Negative Outlays	(212)	(206)*	(207)	(199)

* The President's FY 2004 Budget Appendix shows Net Negative Budget Authority (NNBA) for FY 2002 of -\$275 million. This amount includes one-time accounting adjustments that affected the calculated total, specifically a one-time internal transfer of \$30 million and a separate one-time internal transfer of \$24 million. Both of these transfer amounts have already been used to calculate prior year (FY 2001 and earlier) NNBA and should not again be counted for this purpose. Therefore, OPIC shows the FY 2002 NNBA as -\$221 million (-\$275+\$30+\$24). Similarly, net negative outlays for FY 2002 are slightly lower than those shown in the President's Budget Appendix.

Budget Definitions:

Offsetting Collections are the income from insurance premiums and interest on Treasury securities and other federal sources.

Net negative budget authority is the difference between OPIC's sources and uses of funds. Because OPIC's sources exceed its uses, OPIC generates net negative budget authority which is available to support other programs in the Function 150 budget. (See breakout on the following page.)

Net negative outlays are the difference between OPIC's offsetting collections and OPIC's cash expenditures.

FY 2004 Appropriations Request

OPIC requests only authority to spend funds available from its own sources for global credit funding and administrative expenses. OPIC does not require a direct appropriation for these purposes. OPIC proposes the same funding source language that was approved for FY 2003, which provided that funds will be derived from the agency's reserves.

OVERSEAS PRIVATE INVESTMENT CORPORATION

NONCREDIT ACCOUNT

The Overseas Private Investment Corporation is authorized to make, without regard to fiscal year limitations, as provided by 31 U.S.C. 9104, such expenditures and commitments within the limits of funds available to it and in accordance with law as may be necessary: Provided, That the amount available for administrative expenses to carry out the credit and insurance programs (including an amount for official reception and representation expenses which shall not exceed \$35,000) shall not exceed \$42,385,000: *Provided further*, That the Corporation may accept and use payment or services provided by transaction participants for due diligence, legal, financial, or technical services in connection with any transaction for which an application for an insurance commitment has been made or is anticipated: Provided further, that such amounts shall remain available until expended and shall not be considered administrative expenses for the purposes of this heading.

OVERSEAS PRIVATE INVESTMENT CORPORATION

PROGRAM ACCOUNT

For the cost of direct and guaranteed loans, \$24,000,000, as authorized by section 234 of the Foreign Assistance Act of 1961, to be derived by transfer from the Overseas Private Investment Corporation Noncredit Account: *Provided*, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974: *Provided further*, That such sums shall be available for direct loan obligations and loan guaranty commitments incurred or made during fiscal years 2004 and 2005: *Provided further*, That such sums shall remain available through fiscal year 2012 for the disbursement of financing commitments made in fiscal year 2004, and through fiscal year 2013 for the disbursement of financing commitments made in fiscal year 2005. *Provided further*, that the Corporation may accept and use payment or services provided by transaction participants for due diligence, legal, financial, or technical services in connection with any transaction for which an application for

a direct loan or guaranty has been made or is anticipated: *Provided further*, that such amounts shall remain available until expended and shall not be considered administrative expenses for the purposes of this heading.

In addition, such sums as may be necessary for administrative expenses to carry out the credit program may be derived from amounts available in the Overseas Private Investment Corporation Noncredit Account and merged with said account.