

**BUDGET REQUEST  
FISCAL YEAR 2010**



**An Agency of the U.S. Government**

**[www.opic.gov](http://www.opic.gov)**

**Overseas Private Investment Corporation**

**Congressional Budget Justification  
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## TABLE OF CONTENTS

### BUDGET REQUEST OF THE OVERSEAS PRIVATE INVESTMENT CORPORATION FISCAL YEAR 2010

<b>INTRODUCTION .....</b>	<b>I</b>
<b>FY 2010 REQUEST .....</b>	<b>1</b>
ADMINISTRATIVE EXPENSES .....	1
<i>Technology</i> .....	1
<i>Human Resources</i> .....	2
CREDIT FUNDING REQUEST .....	3
GOALS, STRATEGIES, AND OUTCOMES .....	3
<i>Developmental Quality of Projects – Aligning Budget to Performance</i> .....	3
<i>Transparency</i> .....	4
<i>Serving the Customer Efficiently</i> .....	4
<i>Climatic Change and Greenhouse Gas Limits</i> .....	4
<i>Assuring a Level Playing Field for Lawful Business Activities</i> .....	5
<i>Strengthening Management Practices</i> .....	7
<i>Regional Foreign Policy Priorities: Broader Middle East and North Africa, Sub-Saharan Africa, and Asia</i> .....	7
SECTORAL PRIORITIES –RENEWABLE ENERGY AND CLEAN TECHNOLOGY, ACCESS TO CREDIT BY SMALL AND MEDIUM ENTERPRISES, AND MICROFINANCE .....	10
<i>OPIC Support for Renewable Energy and Clean Technology</i> .....	10
<i>Channeling U.S. Private Sector Capital to Financial Institutions that Lend to Local Small and Medium Enterprises (SMEs) in Developing Countries</i> .....	11
<i>OPIC Support for Microfinance</i> .....	12
<i>OPIC Support for Housing</i> .....	14
STRATEGIC GOALS .....	15
<i>OPIC Focus on U.S. Small Business Investors</i> .....	15
<i>Leveraging U.S. Government Resources</i> .....	16
<i>Continued Importance of OPIC Insurance</i> .....	16
<i>Framework Agreements</i> .....	17
<i>Enterprise Development Network</i> .....	17
<i>OPIC-Supported Investment Funds</i> .....	18
<i>Upcoming Priorities and the Asset Allocation Plan</i> .....	18
<i>Capital Markets Development in Latin America</i> .....	20
<b>APPENDIX .....</b>	<b>21</b>
APPENDIX A: APPROPRIATIONS LANGUAGE .....	21
<i>Non-Credit Account</i> .....	21
<i>Program Account</i> .....	21
<i>OPIC Transfer Authority</i> .....	22
<i>Export Financing Transfer Authorities</i> .....	22
APPENDIX B: BUDGET AND ANALYSIS TABLES .....	23
APPENDIX C: GPPA ANNUAL PERFORMANCE PLAN/REPORT AND PROGRAM ASSESSMENT RATING TOOL (PART) METRICS .....	25
APPENDIX D: DEVELOPMENT MATRIX .....	26
APPENDIX E: PROGRAM ASSESSMENT RATING TOOL .....	28

## INTRODUCTION

**OPIC supports the foreign policy of the U.S. Government by facilitating U.S. private investment in developing and transitioning economies. Investment spurs economic development and leads to greater political stability and security.** Private investment is the most effective and efficient engine of economic growth, and as a result is one of the most powerful and effective smart power tools available to the United States. Advancing economic growth in emerging markets by mobilizing private investment is a vital tool in this new era of international cooperation. It bolsters old partnerships and builds new ones in confronting the major challenges of poverty which fuels terrorism, ethnic and religious conflict, food and energy insecurity, and disease.

**The global economy is currently in the midst of a broad and deepening slowdown. The major economic powers, as well as emerging markets and newly transitioned economies, are experiencing a sharp deceleration in growth.** Global trade and investment have declined significantly, and credit markets and private sources of capital have dried up. Led by the U.S., the international community is working aggressively to restart the flow of credit and to increase capital flows. For its part, OPIC is working to ensure that its finance and political risk insurance products continue to be a source of capital and financing for the U.S. private sector, whose skills, equipment and technical expertise are essential to economic growth and prosperity at home and abroad.

**For nearly forty years, OPIC's commitment and its mission have weathered both financial and political crises.** This support for private investment-driven economic development has been provided at no net cost to the taxpayer, since OPIC charges market-based fees for its products and operates on a self-sustaining basis. OPIC has been able to achieve this through prudent underwriting and judicious use of the leverage that OPIC can exert as an arm of the U.S. government. OPIC's favorable track record is reflected in the \$4.7 billion it has accumulated in its Noncredit Account over the years.

**In recent years, OPIC has sharpened its focus on the developmental impact of its projects by creating objective measures of the value added to economic development by OPIC-supported projects.** OPIC is taking a more proactive role in identifying highly developmental, cutting edge investment opportunities and investors willing to pursue such opportunities. OPIC has also strengthened its analytical methods for assessing the developmental effects of the projects it supports.

**By applying rigorous analytical methods to each project, OPIC seeks to ensure that such projects have a significant developmental benefit in host countries and that OPIC insurance and financing are additional to - and do not displace – market-driven financing and insurance from the private sector.** OPIC concentrates its support on highly developmental projects in challenging economic environments and, in many cases, politically insecure environments. Private investors may decide not to pursue these types of projects, without OPIC support, because of the high risks involved. OPIC support can help to make such projects viable by reducing political risk through insurance or by addressing the commercial risk through guarantees or loans.

**OPIC’s program activities are closely aligned with U.S. foreign policy priorities, and constitute one of the most effective means the United States has in projecting its “smart” power.** While OPIC is ready to support highly developmental investment projects in any OPIC-eligible country, it proactively seeks out projects in both regions and countries that constitute U.S. foreign policy priorities and in sectors where OPIC support can make a real difference in catalyzing private sector investment.

**OPIC’s regional priorities are the Broader Middle East (including Afghanistan and Pakistan) and North Africa, Sub-Saharan Africa; and, increasingly, Asia.**

- OPIC’s focus on the *Broader Middle East and North Africa* is driven by a belief that an improvement in economic conditions and opportunities is a predicate for greater peace, stability, and democratic reform in the region.
- OPIC’s focus on *Sub-Saharan Africa* is driven by Africa’s need to further integrate with the global economy to overcome its comparative lack of economic progress and underdeveloped economic infrastructure.
- OPIC’s increasing focus on *Asia* reflects the fact that U.S. partners and allies throughout Asia and the Pacific are indispensable to our nation’s security and prosperity. They are also a partner in the solutions to the global challenges that the world faces - climate change, the global financial crisis, pandemics and economic disparities. These challenges require that we bolster historic partnerships and alliances while developing deeper bonds with all nations.

OPIC has a country specific priority in the *Republic of Georgia*, where OPIC has committed to provide \$176 million in financing to several investment projects, which helps that country to weather the economic shocks associated with last year’s armed hostilities with Russia.

**With respect to sector priorities, OPIC continues its active support for sectors where it can make a real difference: (i) clean and renewable energy, (ii) access to credit for small and medium enterprises; and, (iii) microfinance.** OPIC continues to support the housing sector, by carefully analyzing its pipeline and monitoring its portfolio of housing construction and financing projects.

**OPIC considers clean and renewable energy to be a key component of its developmental activities both for the host country, and as a part of the Administration’s global effort.** The sharply rising demand for cleaner and more sustainable sources of energy complements OPIC’s capability and mission to mobilize private investment to promote economic development. OPIC has been exploring the most effective ways to establish the U.S. private sector’s role in this sector in the developing world, where energy consumption has been quite low historically but now sees higher demand as emerging markets need more and more energy for cars, plants, and transportation. Now, climate change is not just an environmental or an energy issue, it also has implications for health, economic stability, and food security. Now, more than ever, OPIC can create partnerships that promote economic growth and environmental protection through cleaner energy sources, greater energy efficiency, technology transfers that can provide mutual benefits to developing countries and U.S. technology providers.

**OPIC's focus on credit to small and medium enterprises and on microfinance is driven by the lack of such credit in most developing countries, and by the important role that small business formation has in generating growth in any economy.** Banks in developing countries generally do not lend to small businesses or microenterprises, and when they do, it is only at very short terms and at exorbitant interest rates.

**As indicated above, OPIC in recent years has focused on its core development by developing and applying a comprehensive tool to measure the development impact of projects.** Using these tools, OPIC seeks to hold both itself and the projects it supports accountable for the developmental impact of OPIC-supported projects. OPIC assesses the anticipated development impact of projects as they go through the approval process and monitors the actual impact after the project has been in operation for a period of time.

**OPIC faced a challenging environment in FY 2008 due to the delay in Congressional passage of its authorizing legislation.** This delay prevented OPIC from making any new commitments to projects during much of the fiscal year. Accordingly, while OPIC has continued to work on new projects and now has a sizeable backlog of projects in its pipeline, reported project completions for the year are somewhat skewed for FY 2008, when compared with recent fiscal year figures.

**OPIC has experienced challenges in recent months as a result of the credit crisis.** As a result of the global economic downturn, private sponsors of OPIC-supported investment projects have found it more difficult to obtain private equity and debt financing for projects in the pipeline. Businesses financed and/or insured by OPIC (directly or through framework agreements, investment funds, or reinsurance) have been adversely affected by the broad decline in demand. Accordingly, the risks associated with OPIC supported projects have increased, and OPIC has taken appropriate steps to monitor existing projects and to scrutinize current and potential projects in this economic climate.

**At the same time, the challenges posed by the financial crisis on investment flows have significantly increased the need and the demand for OPIC support.** As a key U.S. bilateral development finance agency, OPIC is uniquely equipped to help address these challenges. Thus, despite the decrease in project activity in FY 2008 and because of the negative impact of the financial crisis on private investment, the need for appropriated resources out of OPIC's balances will remain high over the period covered by this budget. Moreover, the increased risks may well create the need for a larger OPIC subsidy expenditure in FY 2010.

For example, **OPIC is participating in the State Department's Global Financial Crisis supplemental.** The administration has proposed \$20 million in permissive transfer authority to enable OPIC to develop projects in the targeted countries.

**OPIC's need for additional administrative resources is focused as last year on necessary initiatives to address technology and internal controls.** OPIC is requesting a small increase of 3.3% to its administrative expenses budget in line with OPIC's need to continue its investments in systems, and integrated processes. These initiatives will be described in the following section.

## **FY 2010 REQUEST**

**OPIC requests the following FY 2010 appropriations to be self-funded from its offsetting collections:**

- \$52.31 million to support program administration
- \$29.00 million in credit subsidy funding

### **Administrative Expenses**

This level will enable OPIC to continue its ongoing effort to upgrade its information technology and to meet evolving internal control and transparency requirements.

This request comes in the context of a shifting workload both in the number and character of projects. Projects today are more highly developmental, varied, and they are increasingly sponsored by small and medium U.S. enterprises. These shifts respond to Administration and Congressional mandates and they require OPIC to devote more effort to in depth analysis.

On the governmental side, new imperatives to monitor, evaluate, and report transactions have evolved out of a desire for good and transparent governance. These requirements, along with cross cutting internal controls and government integration efforts require additional administrative effort and infrastructure.

The small projected increase in the administrative expenses budget will allow OPIC to continue these initiatives into FY 2010.

### ***Technology***

OPIC recognizes that effective Information Technology (IT) management and operations requires good integration of information resources, processes, and people. The Office of the Chief Information Officer (OCIO) has developed an IT Strategic Plan that focuses on an effective integration of these components to support OPIC's strategic business objectives.<sup>1</sup> OPIC's IT strategy is aligned with the OPIC Strategic Plan and is designed to meet the agency goals by assuring effective access to integrated project-related information by management, by ensuring clear accountability through the establishment of a comprehensive audit trail, and by serving customers better through streamlining application procedures, enhancing the value of information provided to customers, and improving the overall experience of working with OPIC.

OPIC's technology request for FY 2010 consists of two elements: 1) follow-on efforts with respect to OPIC's core Application Integration and Migration (AIM) program and 2) the implementation of several supporting projects.

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<sup>1</sup> See [http://www.opic.gov/about/reports/ocio\\_strategic\\_plan\\_2007\\_2011.pdf.pdf](http://www.opic.gov/about/reports/ocio_strategic_plan_2007_2011.pdf.pdf) for OPIC's current IT strategic plan.

These projects include several IT projects essential to meeting audit and industry best practices and standards:

- Improvements to software to enable OPIC to meet evolving standards for transparency, records management, safeguards for personal information, and information security.
- Development of new reporting tools to strengthen OPIC's capability to analyze risks and program performance by integrating information from isolated databases.
- Development of software to support foreign currency transactions in both direct and guaranteed loans. These capabilities will be critical in supporting OPIC's efforts to support lending commitments for housing, microfinance and SME credit.

While OPIC is pursuing these improvements, OPIC is also strengthening its institutional capability to develop, manage, and maintain its technology projects. This will help ensure that resources provided to OPIC will be used efficiently.

### *Human Resources*

OPIC does not at this time request an increase to its authorized level of 225 full time equivalents (FTE). Current resources are sufficient to support a staffing level within the authorized level.

OPIC works continuously to maintain an effective organizational structure and to ensure that its human resources are effectively utilized in support of its mission and the achievement of its operational goals. Using OPM's Human Capital Assessment and Accountability Framework, OPIC is developing a Human Capital Accountability Plan that will guide and transform how it assesses, plans, and responds to human capital challenges and needs.

Our most human capital strategy focuses on:

- Protecting and responsibly managing the financial risks of the portfolio.
- Delivering more transparency to the public and to the interagency community.
- Expanding the capacity to originate projects in policy priority countries and sectors.

As OPIC continues to grow its portfolio, both in size and scope, it is realizing a greater return on its investments in human capital.

## Credit Funding Request

The President's FY 2010 Budget requests a credit reform funding level of \$29 million to meet normal subsidy requirements and policy priority initiatives, such as the Broader Middle East and North Africa. OPIC requests three-year availability, as was provided in the FY 2008 appropriation.

OPIC's request for FY 2010 reflects the expected subsidy costs of:

- supporting foreign policy priorities in a challenging global economic and financial environment; and
- supporting small business lending, which generally draws relatively high levels of subsidy, even though individual transactions are small.

OPIC is also requesting continuation of the existing \$20 million in transfer authority, which was first enacted in FY 2006 and has been enacted in each year since. This authority provides OPIC and the State Department with shared flexibility to fluidly respond to U.S. foreign policy priorities.

OPIC forecasts that the requested budget will support estimated lending levels of \$2.35 billion dollars in direct and guaranteed loans.

## Goals, Strategies, and Outcomes

### *Developmental Quality of Projects – Aligning Budget to Performance*

**OPIC management places a high priority on the developmental quality of the projects it supports.** OPIC's Development Matrix is a comprehensive analytical tool for measuring the developmental impact of individual projects that OPIC supports.

The Development Matrix provides objective benchmarks for quantifying the developmental impact of projects with respect to job creation, technology transfer, human resource development, social benefits, private sector development, infrastructure development, and national benefits. OPIC calculates an anticipated (ex ante) development score to assist top management in its consideration of a project, and it calculates an actual (ex post) development score after a project has been implemented.

A development matrix score between 50 and 100 is considered developmental and a score above 100 is considered highly developmental. OPIC evaluates both its overall performance and the performance of the individual line departments on the basis of the average development scores of all projects.

The table below summarizes the anticipated developmental impact scores for projects through Fiscal Year 2008, as well as the targets set by OPIC for projects through 2010.

	2007		2008		2009	2010
	Actual	Target	Actual	Target	Target	Target
Number of Projects <sup>2</sup>	70	NA	28	NA	NA	NA
Un-weighted Average	97	95	91	98	100	100
Weighted by Dollar Investment	94	95	83	98	100	100

### *Transparency*

**To increase transparency, OPIC has decided to publicly identify potential environmental issues at a much earlier stage in the project development process than in the past.** Going forward, OPIC will require enhanced consultation with locally affected communities on what the agency calls ‘Category A’ projects – i.e., those with the potential for significant environmental impact.

**OPIC has redesigned its web site to increase and better organize the information available to the public.** The site will now include summaries of major OPIC-sponsored projects considered by OPIC’s Board, and all projects which are ‘Category A’ for environmental impact.<sup>3</sup> OPIC has committed to provide a brief project summary on its website for at least 60 days prior to Board review, and a detailed summary for 40 days prior to Board review.

### *Serving the Customer Efficiently*

**OPIC management has made efficient customer service one of its key priorities.** In FY 2007, for example, OPIC supported \$1.6 billion in total project investments with an administrative expenses budget of \$42.1 million. On this basis, OPIC’s “overhead” is 2%, which compares very favorably with other economic assistance programs. By meeting customer needs, OPIC can better achieve its core mission of supporting private investment with a highly developmental payoff.

### *Climate Change and Greenhouse Gas Limits*

**OPIC recognizes that it is important to address broader climate goals** by expanding its support for projects in the renewable energy sector and by the same token, continuing to reduce

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<sup>2</sup> The number of projects as reported in this table does not include subprojects under framework agreements and investment funds. If sub-projects were included the total number of projects would be 72. See Appendix C for further detail.

<sup>3</sup> See <<https://www2.opic.gov/environtable.asp>> and <[http://www.opic.gov/news/project\\_profiles/index.asp](http://www.opic.gov/news/project_profiles/index.asp)>

greenhouse gas emissions in projects it supports. OPIC has committed to several initiatives, including:

- Establishing a transparent methodology for greenhouse gas accounting
- A 30 percent reduction of portfolio-based emissions of greenhouse gases over a ten year period starting from the a baseline set on June 30, 2008; and,
- Establishing an annual emissions cap of 3 million metric tonnes CO<sub>2eq</sub>/year for all new OPIC-supported projects with significant emissions, over 10,000 U.S. short tons, within a given year.<sup>4</sup>

OPIC is actively implementing these initiatives and others. Additionally, OPIC is expanding these initiatives to establish a new standard for best practice in addressing climate change in OPIC-supported international investments. To ensure a reliable and transparent process for reporting greenhouse gases, OPIC recently completed a comprehensive greenhouse gas inventory of the portfolio and has established an accounting methodology that will enable anyone to track OPIC's progress toward achieving reductions. This baseline accounting includes significant emitters in all sectors -- not just the limited number of sectors identified in the original announcement. OPIC will conduct the inventory on an annual basis based on the projects that are in the portfolio at the end of each fiscal year. This information has been reported to Congress in the FY 2008 Annual Policy Report, and posted on OPIC's web site.<sup>5</sup>

These policies have had a significant and continuing effect. OPIC's emissions cap, in place since June 2007, has served to significantly constrain new carbon additions to OPIC's portfolio. The first year the cap was in effect, from June 2007 through June 2008, OPIC utilized only 18 percent of the annual cap for that year. In the second year of operation which began in June 2008 and ends in June 2009, OPIC has to date only utilized 9 percent of the available annual cap.

### *Assuring a Level Playing Field for Lawful Business Activities*

**Fighting corruption and assuring transparency is deeply tied to OPIC's developmental mission.** Research shows that foreign investment is lower in countries perceived to be corrupt, while countries that improve governance and reduce corruption reap a "development dividend." For OPIC, this means its developmental mission – and the U.S. foreign economic policy objectives the agency supports – can only be achieved when the benefits of OPIC-supported projects are openly channeled to promote host countries' economic growth, and are not corruptly diverted to personal enrichment.

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<sup>4</sup> Carbon dioxide equivalents (CO<sub>2eq</sub>) is a metric measure used to compare the emissions from various greenhouse gases based upon their global warming potential (GWP). The carbon dioxide equivalent for a gas is derived by multiplying the tonnes of the gas by the associated GWP. For example, the GWP for methane is 21 and for nitrous oxide 310. This means that the emissions of 1 million metric tonnes of methane and nitrous oxide respectively is equivalent to emissions of 21 and 310 million metric tonnes of carbon dioxide.

<sup>5</sup> See OPIC's FY 2008 Policy Report, page 50, at [http://www.opic.gov/about/reports/documents/fy08\\_annual\\_policy\\_report\\_040809.pdf#page=50](http://www.opic.gov/about/reports/documents/fy08_annual_policy_report_040809.pdf#page=50).

**OPIC's Anti-Corruption and Transparency Initiative** is designed to support a level playing field for lawful business activities, promote evolving best practices and corporate social responsibility, and improve the transparency of OPIC operations – all while preserving the confidential business information and commercial efficiency of project sponsors.<sup>6</sup> OPIC launched the initiative on the basis of extensive consultations with stakeholders in Congress and the nongovernmental community. Transparency International-USA, part of the global civil society organization leading the worldwide fight against corruption, has welcomed OPIC's Anti-Corruption and Transparency Initiative as an important contribution to the global anticorruption effort.

**Chief among the reforms of the initiative is OPIC's endorsement of the Extractive Industries Transparency Initiative (EITI) and its insistence that its sponsors disclose amounts they paid to governments.** In this and other ways, EITI supports better governance through improved accountability. Full publication and verification of company payments and government revenues from oil, gas, mining, and chemical ventures will counter bribery, extortion, and coercion. **EITI will help to ensure that project benefits flow to host countries and their populations.** Participation in EITI can reduce project risks, improve the likelihood of project success, and reduce costs.

**OPIC has worked to ensure that OPIC-supported projects are in full compliance with the Foreign Corrupt Practices Act (FCPA) and other anti-corruption laws.** In September 2007, for example, OPIC worked with the Department of Commerce Commercial Law Development Program to provide a training seminar on anti-corruption efforts. As another element of the new initiative, OPIC has published an Anti-Corruption Handbook describing the FCPA and how it applies to OPIC-supported projects and sponsors.<sup>7</sup> The Handbook clearly notifies sponsors of their obligation to certify their compliance with anti-corruption laws at various stages of the OPIC-supported project application, review, and approval process.

The Handbook provides project sponsors with an easy-to-follow guide for developing an effective compliance program and a comprehensive approach to fighting corruption. Sponsors are cautioned that OPIC will evaluate every allegation of fraud or corruption and will make appropriate referrals to the Department of Justice. OPIC has also established a corruption hotline monitored by OPIC's Legal Affairs department that anyone may call either to report potential irregularities in OPIC-sponsored projects or to ask compliance questions.

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<sup>6</sup> See <<http://www.opic.gov/about/Transparency/index.asp>>

<sup>7</sup> See <<http://www.opic.gov/about/Transparency/documents/opicanticorruptionhandbook0906.pdf>>

### *Strengthening Management Practices*

**OPIC has also taken steps to strengthen its management practices.** For example, OPIC has established a Senior Management Council (SMC) of OPIC's leadership, and a Senior Assessment Team (SAT) at the working level. Additionally, OPIC has established an Audit Committee under the Board of Directors. The purpose of the committee is to:

- Provide assistance to the Board of Directors in fulfilling its accounting and financial oversight responsibilities.
- Demonstrate that OPIC has in place adequate and effective administrative and financial controls.
- Review the financial statements.
- Provide oversight regarding the Corporation's internal audit functions and its independent public accountants.

### *Regional Foreign Policy Priorities: Broader Middle East and North Africa, Sub-Saharan Africa, and Asia*

**OPIC's economic development mission is guided by U.S. foreign policy objectives.** Within those objectives, OPIC is focusing on three regions of the world where its programs are likely to most effectively complement U.S. foreign policy objectives - the Broader Middle East and North Africa, Sub-Saharan Africa, and Asia, while continuing to be active in other emerging markets in Latin America and Eurasia.

**OPIC-supported private investment in these regions is [uniquely] positioned to advance U.S. foreign policy objectives.** OPIC continues to focus on supporting projects in countries and regions that are either torn by current conflict (e.g., Afghanistan, Iraq, and the West Bank), or are seeking to recover from recent conflict (e.g., Lebanon, Liberia and Georgia). The suffering from violence in such countries is compounded by a loss of jobs, income, and basic infrastructure services, which in turn fuels further instability. OPIC focuses on supporting private investment and activities by U.S. NGOs that can rapidly create jobs, raise incomes, and increase the local population's stake and confidence in peace and stability. In doing so, OPIC proactively seeks out and works with investors and partner organizations to launch projects that together will help the country to jumpstart economic growth.

**In the Broader Middle East and North Africa** – OPIC-supported private investments can create hope through increased employment and demonstrate economic benefits of reduced conflict, greater democracy and increased openness. The steps OPIC has taken in support of its regional priority in the Broader Middle East and North Africa are largely outlined in the discussion of the how OPIC can support countries affected, currently or historically, by conflict and political violence.

**In Afghanistan and Pakistan**, OPIC continues to work with private investors, other U.S. agencies, host governments, and the international community to address the instability caused where a lack of economic opportunity has weakened the host governments, made the missions of

U.S., multinational and local troops more difficult and dangerous, and created conditions that can spread the risk of terrorism. In Afghanistan, OPIC has commitments to more than \$164M in investments in more than 25 projects.

**OPIC has launched projects in *Lebanon* and the *West Bank*.** In Lebanon, OPIC and Citibank worked together to speed up the country's recovery by channeling private capital to Lebanese banks. Immediately after the conflict in 2007, \$158 million was quickly disbursed in order to help small and medium sized businesses rebuild, reopen and become productive again. In 2008, another framework agreement was established with Citibank to further support the continued need for financing by entrepreneurs. To date, an additional \$85 million has been injected into the economy. The Cooperative Housing Foundation's (CHF) AMEEN Finance Company in Lebanon had virtually shut down until OPIC provided a \$23 million loan. This loan enabled CHF to immediately support small businesses and homeowners who needed to rebuild in the aftermath of the conflict. OPIC was able to mobilize this facility and get investment flowing within six months of the conclusion of hostilities in 2007. Through December 31, 2008, a total of 6,950 loans had already been made.

In the *West Bank*, OPIC is seeing the fruits of the efforts begun in 2005 when it first teamed up with the Aspen Institute and the Palestinian Investment Fund to create a \$228 million small business lending facility.<sup>8</sup> The facility has engaged financial institutions which lend to downstream Palestinian borrowers on affordable terms based on cash flow-based lending criteria. As of December 31, 2008, the facility resulted in just under \$5 million through 5 major Palestinian banks. Each one of the individual loans represents an entrepreneur building a business that makes a difference in the local community. OPIC also is working with the Palestinian Investment Fund and the Aspen Institute on a \$325 million mortgage facility which will develop affordable housing opportunities for Palestinians.

In *Jordan*, OPIC is finalizing transactions to support lending to small businesses, microenterprises, and mortgages for low income households. OPIC will provide long-term funding to three banks in Jordan, the proceeds of which will be used by the banks to extend 25 year mortgage loans to low income households in the country. This project will support the government's affordable housing initiative to increase the supply of affordable housing for lower income households. OPIC is also finalizing a transaction to provide support to a local institution that extends loans to small- and medium-sized enterprises and microfinance borrowers. This support will provide long-term financing to this SME and microfinance lending group to expand its loan portfolio over the five to ten years

**In *Sub-Saharan Africa*,** OPIC continues its focus on supporting private sector growth, capital market and infrastructure development and helping to address conflict-ridden countries. As discussed below, OPIC's Board has approved new investment funds that now target investing in pan-African companies with exceptional growth prospects and in strengthening African capital markets by investing in innovative financial instruments such as mezzanine and convertible debt.

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<sup>8</sup> See <<http://www.opic.gov/news/pressreleases/2007/pr072507.asp>>

OPIC's approach to help conflict-ridden countries may be best illustrated by its support in **Liberia**. Liberia is a young, developing democracy with historic ties to America. Its emergence from decades of civil war and mismanagement in a strife-torn, resource-rich region of Africa makes its stability and growth a high priority to the United States. Its recent history has left the country with few meaningful infrastructure services and very little private business investment. For example, Liberia's entire power infrastructure, including its transmission lines, distribution grid, and generation facilities were completely destroyed during the civil war. So, OPIC has provided Political Risk Insurance coverage to the International Rescue Committee (humanitarian assistance) and to Lachamco (leasing of construction equipment and tools), and is supporting private investors who will use wood-chips from fallow rubber trees to generate renewable power. Beyond these initiatives, OPIC is discussing potential projects with a number of U.S. corporations and U.S. NGOs, which OPIC could support through guarantees or direct loans. These include a microfinance project, a heavy equipment leasing project, and several low and moderate-income housing deals.

In **Asia**, OPIC is actively supporting innovative investments, e.g., in the clean and renewable energy sectors through several new Global Renewable Funds that can invest in the region, and by providing financing and political insurance to support new hydro and wind projects in Sri Lanka and India. As discussed in more detail below, the OPIC-supported **South Asia Clean Energy Fund** will invest in companies and projects that support the need for cleaner forms of energy in the region—including those utilizing solar, wind, hydropower, biofuel and natural gas. The fund will also invest in technologies that promote: energy efficiency; improved batteries and storage, clean transportation, clean water systems, and environmental and energy efficient building. And it will focus on companies that service the renewable energy value chain, and on building South Asian regional and global growth companies.

And, in the **Republic of Georgia**, which is struggling from the economic impacts of its conflict with Russia, OPIC committed to provide \$176 million in financing to support investment projects in Georgia, including a \$6.3 million direct loan for the construction of an apartment building for moderate income residents, a \$40 million SME lending facility with a U.S.-owned local Georgian bank, and up to \$44 million to eligible local financial institutions under a framework agreement. OPIC also expects to commit \$30 million for microfinance in Georgia this year.

## Sectoral Priorities –Renewable Energy and Clean Technology, Access to Credit by Small and Medium Enterprises, and Microfinance

**OPIC focuses on renewable energy and clean technology, and on increasing access to credit for micro and small and medium enterprises as priority sectors.** While OPIC is prepared to support developmental projects in almost any sector, provided they do not create adverse economic effects in the U.S. and meet other statutory requirements with respect to the environment and recognized labor rights standards, OPIC’s support for U.S. private investment in these sectors can have a proportionally large economic development impact by:

- Applying U.S. renewable energy, clean technology, and efficiency expertise to provide developing countries with cleaner options to power their development; and
- Enabling U.S. private capital to support well-run micro and SME financial institutions to provide access to credit for entrepreneurship at the grass roots level and to start and grow small businesses.

### *OPIC Support for Renewable Energy and Clean Technology*

**OPIC fully supports environmental improvement and the development of clean and renewable forms of energy in the developing world.** OPIC’s portfolio includes energy projects generating a cumulative total of more than 2,200 MW of clean power, including hydro and wind. Many of these projects involve U.S. small businesses. In addition, OPIC supports projects that incorporate highly efficient energy technology.

Looking ahead, OPIC expects to support more clean energy projects including solar, wind, biomass and biofuels, as well as waste-to-energy projects. In early 2008, OPIC established a group dedicated to identifying and underwriting renewable energy transactions and other projects aimed at sustaining the environment. The group has contacted key stakeholders in the sector and identified projects most suited to OPIC financing. Commitments to a number of these projects have already been made in FY2009 (including an efficient lighting manufacturer in India and a renewable fuel project in Liberia), with others currently advancing to the approval stage.

The group has also sought to develop certain innovative financing structures that will make investments in this sector successful with OPIC assistance. With OPIC’s experience in difficult regulatory markets, and expertise in the energy sector in general, OPIC has taken a “hands-on approach” to project development alongside U.S. investors. The renewable energy group has begun tracking projects in its pipeline for assisting sponsors over important hurdles, maintaining a view of OPIC’s potential financing commitments, and recognizing OPIC workforce allocation needs. At this time, OPIC has approximately \$900 million of potential financing for SME environmental projects, representing approximately 35 projects. A significant number of these projects are being developed in Africa and Central America. OPIC expects to increase the number of projects in its outstanding finance portfolio by 15% each year in each of the next three years.

At the Washington International Renewable Energy Conference (WIREC) held in Washington, DC, in March 2008, OPIC announced the Global Renewable Energy Call for Proposals. The

purpose of the Call was to finance private equity funds that facilitated the investment of risk capital to companies or projects within the renewable energy sector and other related sectors in the field of energy and environmental sustainability. Through the Call, OPIC addressed an important policy objective of the U.S. Government: to promote private sector investment in the global renewable energy industry. The funds that OPIC has elected to support under this Call are described below under “Investment Funds – Global Renewable Energy Funds.”

### *Channeling U.S. Private Sector Capital to Financial Institutions that Lend to Local Small and Medium Enterprises (SMEs) in Developing Countries*

The economic development community has come to recognize that making medium- and long-term credit available to creditworthy SMEs is one of the most effective tools available to ignite economic growth and productive job creation. In many, if not most, developing countries bank loans for more than 12 months are simply not available to small businesses, and the credit that is available requires extensive collateral and often on unaffordable terms. SMEs are vital to energizing private sector driven economic growth, but all too often, SMEs are unable to grow in a sustainable manner because they lack access to capital needed for business operations and planned expansions.

On one hand, the financial institutions have neither staff trained to assess the viability of a small business nor the tools to establish and assess credit underwriting standards, in part because local banks continue to question the profitability of small enterprise finance. Moreover, SMEs in developing countries often operate in the informal sector, and as a result, lack the business relationships and management knowledge necessary to package and present a business plan that meets a bank’s credit underwriting criteria. As a result, SMEs generally lack sufficient access to capital, particularly long-term capital to grow the business.

In response, OPIC has taken a lead role by developing different business models to support SME lending in developing countries on reasonable terms and attractive maturities. Moreover, OPIC has also partnered with the Treasury Department, USAID and multilateral development banks in effectively providing technical assistance to help small enterprises acquire the skills needed to put together an effective business plan and loan application. The business models OPIC has pioneered include:

- OPIC loans to U.S. owned local financial institutions that, in turn, provide financing to the SME sector
- OPIC guarantees of loans made by U.S. banks to local financial institution in the host countries for the purpose of funding SME loans
- OPIC guarantees of bonds issued by U.S.-owned local financial institutions in the host countries to fund SME loans
- OPIC commitments to share the risk of specified SME loan portfolios of U.S.-owned local financial institution in the host countries, and,
- Insurance products at discounted rates in support of small business entrepreneurs.

OPIC has also used special purpose lending facilities in countries with difficult economic environments to support lending to SMEs. In the Trade Bank of Iraq project, OPIC worked with

private sponsors to develop a special facility for guaranteeing letters of credit issued by the Trade Bank of Iraq to Iraqi enterprises importing goods or services. This facility substantially enhances the ability of small Iraqi enterprises to import essential capital equipment and other inputs, including those from U.S. exporters and suppliers.

OPIC has used its relationships with American banking institutions to expand and target lending to such important sectors as SME, microfinance and housing. Under a framework agreement, OPIC commits itself to support loans up to a certain value and pursuant to conditions spelled out in the agreement. OPIC has established a number of global and regional facilities under this model.

**OPIC also launched a major and innovative new collaborative initiative in Latin America to address the significant obstacles to increased lending to SMEs.** At the Summit of the Americas in April, President Obama announced a new \$100 million *Microfinance Growth Fund for the Western Hemisphere*, an innovative initiative involving OPIC, the Treasury Department and the Inter-American Development Bank's Multilateral Investment Fund to increase lending to SMEs in Latin America. This initiative tackles a number of related problems that currently block lending to Latin American SMEs. The Treasury Department provides technical assistance to governments on legal and regulatory reforms that facilitate small business lending. The IDB provides technical assistance to several local financial institutions to enhance their ability to evaluate the credit quality of small business loans and to strengthen their institutional capacity to make SME loans. And OPIC encourages its U.S. banking partners to make over \$176 million in new loans available for the specific purpose of SME lending. In particular, OPIC was able to verify that a total of \$17.8 million was made available for 363 SME borrowers (i.e., seeking loans of less than \$100,000).

### *OPIC Support for Microfinance*

**Microfinance institutions (MFIs) provide a broad range of financial services, including access to credit by the un-banked and under-banked populations in developing countries.** By offering high quality, financial services to grassroots entrepreneurs that do not have normal access to credit, MFIs enable individuals with little capital to start and expand a business. Many MFIs also assist their clients to finance home improvements, health care and education for family members, thereby providing a holistic approach to poverty alleviation. Women represent the majority of MFI clients, which is particularly important since women in emerging markets must overcome many barriers to participate in the formal economy.

The turmoil in the financial markets has prevented many MFIs from raising sufficient capital to finance the growth of their lending activity. Not only does this pose a problem for MFIs that seek to benefit from the efficiencies inherent in growing their business, it also results in a reduction in capital that can be provided to the MFIs' underlying micro business customers.

**In this difficult environment, OPIC has increased its efforts to provide financing to the microfinance sector by participating in a number of microfinance transactions that are essential for the MFIs and their borrowers to maintain and continue to grow their business activity.** To that end, OPIC has established a number of global and regional facilities. To date OPIC has provided financing of approximately \$410 million to 27 microfinance projects that support a total of \$790 million in lending.

Examples of some innovative transactions include:

**BRAC Africa Loan Fund** (the ‘Fund’) involves BRAC, a leading international development organization founded in Bangladesh which successfully raised \$62.6 million of debt capital to provide microfinance loans to poor borrowers in Tanzania, Uganda and Southern Sudan. The Fund plans a second close to reach total capital of \$74 million. The Fund provides long-term, local-currency funding that will enable BRAC to scale up its microfinance operations to reach over 700,000 borrowers through over 200 branches across the three countries. This transaction was the largest single financing to date of a southern hemisphere development organization expanding into Africa. OPIC was an anchor investor in the transaction providing \$28 million to the Fund.

**Blue Financial** is a South African-based financial institution that provides micro-, small, and medium enterprise (SME) financing in South Africa and eleven other countries in Africa. The company operates with a double bottom line objective aimed at maximizing profit while contributing to the alleviation of poverty by making capital accessible to low-income households and small businesses. OPIC is providing a \$70 million loan to support the expansion of Blue’s lending to SMEs in South Africa. Although South Africa has a well-developed financial sector, most small companies and individuals cannot access traditional debt markets. Approximately 40% of Blue’s borrowers are expected to be located in rural areas and 55% are expected to be female. Blue also offers training programs to assist entrepreneurs with the successful start-up of their business.

**Citibank Microfinance Facility**, which has demonstrated the world wide demand for financing in this market. Through December 31, 2008, the facility has supported over 20 institutions with over \$50 million of loans to microfinance borrowers in every continent, including such countries as India, Jordan, Romania, as well as those mentioned last year (El Salvador, Philippines, Honduras, Mexico, Kenya, Kazakhstan and Uganda).

With the state of the global credit markets today, microfinance institutions are having a more difficult time in raising capital, and OPIC is poised to continue its support of these dynamic grassroots organizations.

**OPIC is working on new and innovative projects to address microfinance needs in global emerging markets** and is considering the following business models to expand its support of microfinance institutions:

- Addressing liquidity needs of microfinance sector by filling the financing gap resulting from the reduction in private sector investment.
- Participating in transactions that will encourage greater participation by capital market investors through a strong demonstration effect - showing investors that it is a safe and potentially profitable investment opportunity.
- Where appropriate, taking subordinated debt in transactions that will encourage greater capital flows from the private sector.
- Partnering with financial institutions that can lend in local currency or provide local currency hedging products.
- Attracting private capital through securitizations – which give investors a more liquid and standardized product for their portfolios.
- Supporting funds and microfinance network organizations that finance smaller MFIs with more limited access to capital.
- Providing political risk insurance to microfinance institutions and their investments abroad.
- Creating multi-project master insurance programs that provide comprehensive political risk coverage at rates that recognize the mitigating effects of spreading the risk.

### *OPIC Support for Housing*

OPIC continues to see housing finance as a critical sector needing support from bilateral and multilateral development finance agencies. OPIC's focus on this sector in recent years has resulted in a successful and rapidly expanding portfolio.

Given the continuing concern in the world's mortgage markets, OPIC's Board of Directors took the decision in late 2008 to cap committed housing-sector exposure to one third of OPIC's portfolio, until further review or by specific waivers.

OPIC still sees strong interest in this sector throughout many regions of operations, with projects under consideration in countries such as India, Turkey, Liberia, Ghana, Romania, and Latin America. Also, the highly developmental, emerging area of housing microfinance and of "green" housing and building continue to seek support.

Given the continued demand for housing finance products, OPIC is able to utilize conservative credit standards and has a continuous process of adjustment to factor in lessons learned that serves to strengthen its prudent underwriting methodology.

## Strategic Goals

### *OPIC Focus on U.S. Small Business Investors*

**OPIC continues to place a special emphasis on helping American small businesses become investors in the developing world.** Helping small businesses to invest overseas is an important way to distribute the benefits of international commerce more broadly throughout the U.S. economy. Small business is a part of nearly every U.S. community: the SBA reports that small businesses employ about 50 percent of all private sector workers and create 75 percent of the net new jobs in the American economy.

As a vital source of innovation and economic growth, **U.S. small businesses are increasingly looking for opportunities in the global marketplace.** But for a U.S. small business looking to engage globally, the obstacles can be formidable: limited access to capital, perceived investment risk, and lack of knowledge about opportunities in international markets.

**One of OPIC's ongoing goals is to increase small business participation in global markets by reducing the obstacles to investment and by cultivating better small business projects.** For example, Insurance has increasingly focused on supporting U.S. small businesses that want protection against political risks as well as the support and advocacy of the U.S. government in the event that the rules change. Insurance provides a streamlined application and administrative process for eligible Small Business companies.

**The ideal OPIC-supported small business project is not any different than the largest projects the agency supports.** A good OPIC project addresses an important developmental need in the host community, transfers technology and skills from a successful American company to a nascent industry in an emerging market, and supports industry here in the United States. It delivers lasting economic effects because it is funded not by grant, but by investment with the expectation of long-term profitability and job creation.

**In 2007,** OPIC supported 111 new projects that involved small- and medium-sized enterprises, which accounted for 79% of the 139 projects supported in that year.

**In 2008,** OPIC supported 49 new projects that involved small- and medium-sized enterprises, which accounted for 68% of the 72 projects supported in that year

**OPIC's *Expanding Horizons* workshop series helped hundreds of U.S. minority and women small business owners to learn how OPIC can help them to invest in emerging markets successfully.** In FY 2008, OPIC continued its successful series of *Expanding Horizons* workshops, holding events in Newark, New Jersey; Houston, Texas; and San Francisco, California. Designed for minority and women-owned businesses, these workshops informed participants about the support available from OPIC and other U.S. government agencies to help their companies to access business opportunities internationally.

**To date, OPIC has held seven *Expanding Horizons* workshops across the country, attracting over 750 participants and involving the support of 70 supporting organizations.** OPIC plans to continue the *Expanding Horizons* series with two more regional workshops in 2009. The invaluable partnerships created from the workshop series has allowed OPIC to further outreach to the minority and women-owned business community, participating and speaking at events coordinated by organizations such as the Jamaica Business Resource Center of New York, the Continental-Africa Chamber of Commerce, and the California Centers for International Trade and Development. In 2008, OPIC was also pleased to welcome to its strategic "Partners Program" the National Association of Business Owners (NAWBO).

### *Leveraging U.S. Government Resources*

**OPIC recognizes that it can better achieve its developmental mandates by working in tandem with other agencies.** Policy reforms and social investments supported by grant-funded technical assistance provided by the Millennium Challenge Corporation (MCC), the U.S. Agency for International Development (USAID), the Department of the Treasury, the Department of State, or the Trade and Development Agency complement OPIC-supported private investments. For example, grant-funded technical assistance for the reform of laws underpinning property titles, title insurance, and consumer mortgages help reinforce OPIC-supported private investment in the housing sector.

Private investment supported by OPIC is similarly enhanced through the services provided by the Commerce Department's Foreign Commercial Service. Similarly, trade agreements negotiated by the U.S. Trade Representative remove obstacles to such investments. By the same token, OPIC-supported investments that build trade capacity reinforce MCC compacts and complement USAID grants.

**OPIC has made and will continue to make every effort to seek out opportunities for interagency collaboration and to establish channels of communication between OPIC's top managers and their counterparts in other agencies.** OPIC believes that interagency collaboration could have particular value in smoothing the path from grant-funded economic assistance to private investment-led economic growth. In one example, OPIC, through its Enterprise Development Network (EDN) is administering USAID's African Entrepreneurs' Facility to grant technical assistance to small and medium businesses in sub-Saharan Africa. In addition, OPIC is working closely with MCC on how the two agencies can help MCC countries graduate from government-financed development assistance grants to government-enhanced private investment.

### *Continued Importance of OPIC Insurance*

**OPIC's Political Risk Insurance is an important element of OPIC's capability to mobilize capital in developing countries.** OPIC's financing capabilities help put investors in business. OPIC Insurance programs mitigate the risks, protect the investor and allow the continuation of an investment in the event of a loss. Coverage is provided for the full range of investors, large and small, against a wide variety of risk including inconvertibility, expropriation, loss of business income, breach of contract or guarantee, and political violence.

**OPIC Insurance works with the private insurance industry to find ways to provide complementary forms of coverage** that will encourage them to support U.S. businesses interested in making investments with a high developmental impact in countries judged too risky on a purely commercial basis. As a government agency, OPIC can take risks that the private political risk insurance industry on its own would be otherwise unwilling to take.

**OPIC Insurance is actively working with the private insurance market to use reinsurance to expand coverage** both for projects and to catalyze private political risk insurers in emerging markets where OPIC operates. This is an example of how OPIC's historical role of an innovator continues in ways where OPIC can shape the policy framework in developing innovative political risk insurance products.

### *Framework Agreements*

While OPIC has worked with American banks through framework agreements to promote U.S. Government priorities in the past, the recent global financial crises may impact that relationship in 2009. OPIC's key partners have been Citibank, Wachovia and National City Bank because of their international branch networks and extensive correspondent bank relationships in countries where OPIC can do business. In the past, these banks had been willing to make loans that meet OPIC priorities. OPIC has monitored many of these loans and found that, indeed, a significant portion of framework capital is targeted to more highly developmental segments of the specific markets. We hope to be able to continue the relationships that have made the framework program so successful.

### *Enterprise Development Network*

In June 2007 OPIC launched the Enterprise Development Network (EDN), a strategic alliance between OPIC and the private sector. **EDN significantly extends OPIC's ability to provide financing and political risk insurance to more SMEs doing business in developing countries.** Through the support of participating financial institutions, business consultants, associations, law firms, state/regional promotion and sister agencies, EDN increases the access of small businesses to OPIC products and services. By empowering such service providers, the network results in more efficient, cost-effective delivery of services to American and local businesses. EDN will include the following participants:

- EDN Originators: comprised of business consultants and not-for-profit organizations worldwide, will be trained by OPIC to advise SMEs in drafting business plans, enhancing market strategies and preparing applications that meet OPIC's standards and policy conditions for both OPIC Finance and Political Risk Insurance programs.
- EDN Network Investors: debt and equity providers that may or may not have OPIC's financial support, but invest in SMEs or their affiliates for projects in OPIC-eligible countries.
- EDN Advisers: specialists in particular business sectors and geographic areas, which will assist OPIC in credit underwriting and due diligence on OPIC-funded loans (Eighteen advisors have been appointed, to date.)

Over thirty-five organizations collectively covering a broad range of industry sectors now serve as EDN Loan/Insurance Originators. They are located in the U.S. as well as in Africa and Asia, with several organizations having their own global presence. Approximately 80 people from these organizations have received classroom or web-based EDN training, designed to provide a meaningful exposure to the EDN program and the specific requirements of OPIC financing and insurance.

This year OPIC anticipates expansion of its base of network investors to include private equity funds and financial institutions that participate in USAID's Development Credit Authority (DCA) program and credit facilities supported by the Millennium Challenge Corporation (MCC).

In addition, OPIC and USAID have agreed to utilize EDN to provide at least \$2 million in technical assistance to small- and medium-sized enterprises (SMEs) in sub-Saharan Africa. The mission of this African Technical Assistance initiative, or EDN/ATA, is to spur the development of SMEs in sub-Saharan Africa. SMEs seeking financing can use the technical assistance grants to fund improved financial management, installation of a sound accounting system, business plan drafting, and market assessments. This initiative is expected to be introduced to the marketplace in mid-April 2009.

### *OPIC-Supported Investment Funds*

#### *Upcoming Priorities and the Asset Allocation Plan*

While there are no current Calls for Proposals in the pipeline, OPIC continues to assess the Emerging Market Private Equity landscape in light of the current economic environment. OPIC's role to continue catalyzing private sector capital to invest in emerging markets in the current environment is paramount, particularly as foreign direct investment into the developing world has fallen so precipitously. Through its initial research and meetings with other International Financial Institutions, OPIC sees an opportunity to expand its Call program to meet the present market needs of emerging market fund managers. For example, as part of a forward looking asset allocation plan, OPIC may consider supporting new funds focused on investing in agriculture, infrastructure, and renewable energy.

### **Global Renewable Energy Funds**

In September 2008, OPIC's board approved up to \$505 million to finance six funds designed to invest in clean and renewable energy projects and companies in emerging market countries worldwide, and the funds are expected to mobilize a total of \$1.6 billion in capital for the sector. The following renewable energy funds have been approved by OPIC's board:

#### **Middle East & Asia Capital Partners Clean Energy Fund II**

OPIC is providing up to \$50 million in financing to the fund, which will invest in a wide spectrum of renewable energy projects throughout Asia, with an emphasis on South and Southeast Asia. It will invest in equity, convertible debt and mezzanine debt in projects – wind farms and geothermal production, for example – as well as in manufacturing and service companies that serve the renewable and biofuels sectors. OPIC selected as fund manager Middle East & Asia Capital Partners Pte., Ltd (MEACP), a private equity platform connecting the

Middle East and Asia. The fund has a target capitalization of \$150 million. The fund will be raised in parallel with the targeted \$250 million MEACP Clean Energy Fund, which will invest in parallel with the fund in investments eligible for OPIC support.

### **South Asia Clean Energy Fund**

OPIC is providing up to \$100 million in financing to the fund, which will invest in companies and projects that support the need for cleaner forms of energy in the region—including those utilizing solar, wind, hydropower, biofuel and natural gas. The fund will also invest in technologies that promote: energy efficiency; improved batteries and storage, clean transportation, clean water systems, and environmental and energy efficient building. It will focus on companies that service the renewable energy value chain, and on building South Asian regional and global growth companies. Approximately 75 percent of the fund's investments are expected to be made in India. OPIC selected as fund manager GEF Management Corporation, which has previously managed two successful OPIC Funds, Global Environment Emerging Markets Fund, L.P. and Global Environment Emerging Markets Fund II, L.P. The fund has a target capitalization of \$300 million.

### **FE Global Clean Energy Services Fund IV**

OPIC is providing up to \$55 million in financing to the fund, which will invest in renewable energy and energy-efficient emission reduction projects in Asia, Central and Eastern Europe, and Latin America. At least 50 percent of the fund's capital is planned to be invested in Asia, primarily in India, Malaysia, Philippines and Thailand. The Fund will also make clean energy investments in select countries in Latin America and Eastern Europe. OPIC selected as fund manager GEM Management IV Corp., an affiliate of FE Clean Energy Group, Inc., a leading private equity fund management firm focused on renewable energy and energy efficiency investments in emerging markets. These investments are expected to generate tradable carbon credits for Greenhouse Gas emission reductions. The fund has had an initial closing of approximately \$150 million.

### **US Renewables Group**

OPIC is providing up to \$100 million of capital to be co-invested in renewable power generation, clean fuels and renewable energy value-chain investments in emerging markets worldwide. US Renewables Group is the fund manager, and OPIC capital will be managed in connection with the USRG Power and Biofuels Fund III. The fund will target investments in asset-focused, renewable energy projects, or platform companies that are projected to have strong cash flows within two years and have low technology risk.

### **Good Energies – Wolfensohn Renewable Energy Fund**

OPIC will provide up to \$100 million in financing to the Fund, which will invest in expanding businesses that manufacture, develop, supply, or support renewable energy products or services in emerging markets worldwide. The Fund intends to invest in renewable energy projects, energy efficiency and clean energy technology. The Fund will target both emerging-market companies that target their domestic markets and OECD-based renewable energy companies that are expanding into emerging markets. OPIC selected as fund manager a joint venture between Good

Energies II L.P. and Wolfensohn Low Carbon Energy Fund, L.P. The fund has a target capitalization of \$300 million.

### **Virgin Green Emerging Markets Fund, LP**

OPIC is providing up to \$100 million in financing to the Fund, which plans to invest in companies involved in the renewable energy and resource efficiency sectors in emerging market countries. The Fund is targeting \$200 million to invest in renewable energy and resource efficiency sectors and will target 30% gross IRR, and 3x gross returns with a hold period of three to five years. Transactions will range from \$20 million - \$50 million. The Fund will focus on investing growth and expansion capital in companies across the renewable energy sector. The Fund is a follow-on to the existing Virgin Green Fund I, L.P. ("Fund I"), presently an approximate \$250 million fund formed in June 2007 to invest primarily in the U.S. and Europe. The Fund will apply to the emerging markets a strategy similar to that employed in Fund I.

### *Capital Markets Development in Latin America*

In 2008 OPIC announced an effort to bridge the capital access gap for growing businesses in Latin America by providing finance to selected funds to facilitate the investment of risk capital that will expand the breadth and/or depth of capital markets in Latin America (including Mexico, Central America, Caribbean and South America). OPIC was primarily interested in supporting funds that provided private debt or equity, expansion capital or addressed specific market gaps in forms of capital and investment product in Latin America. OPIC has Board approved \$350 million in commitments to three funds which hope to raise at least \$1.05 billion in aggregate from the private sector. The following is a short description of each approved fund:

#### **Altra IV, L.P**

The Fund will seek to invest in established companies with proven business models operating mainly in countries in the Andean Region, with at-least 70% invested in Colombia and Peru. The Fund is targeting a \$200 million final close inclusive of OPIC's \$50 million Board approval.

#### **Greylock Latin America Opportunity Fund**

The Fund will invest primarily in Latin American corporate debt with a focus on Colombia, Peru, the Dominican Republic and the CAFTA region. The portfolio will target a handful of specific sectors, including telecommunications, finance and banking, agribusiness, tourism, real estate, natural resources, and energy, though companies in other sectors may be considered. The Fund is targeting a \$450 million final close inclusive of OPIC's \$150 million Board approval.

#### **Latin Power IV, L.P**

The Fund will provide private capital to energy and infrastructure projects in Latin America and the Caribbean. The Fund will primarily seek to make control investments in power and infrastructure projects being developed by private entities. In addition, the Fund may also act as the principal sponsor, owner or developer of a project, and may invest as a minority owner in select situations. The Fund is targeting a \$750 million final close inclusive of OPIC's \$150 million Board approval.

## APPENDIX

### Appendix A: Appropriations Language

#### *Non-Credit 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 [\$50,600,000] *\$52,310,000*: Provided further, That project-specific transaction costs, including direct and indirect costs incurred in claims settlements, and other direct costs associated with services provided to specific investors or potential investors pursuant to section 234 of the Foreign Assistance Act of 1961, shall not be considered administrative expenses for the purposes of this heading. (*Department of State, Foreign Operations and Related Programs Appropriations Act, 2009.*)

#### *Program Account*

For the cost of direct and guaranteed loans, \$29,000,000, 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 [2009, 2010, and 2011] *2010, 2011, and 2012*: *Provided further*, That funds so obligated in [fiscal year 2009 remain available for disbursement through 2017; funds obligated in] fiscal year 2010 remain available for disbursement through 2018; [and] funds obligated in fiscal year 2011 remain available for disbursement through 2019; *and funds obligated in fiscal year 2012 remain available for disbursement through 2020*: *Provided further*, That notwithstanding any other provision of law, the Overseas Private Investment Corporation is authorized to undertake any program authorized by title IV of the Foreign Assistance Act of 1961 in Iraq: *Provided further*, That funds made available pursuant to the authority of the previous proviso shall be subject to the regular notification procedures of the Committees on Appropriations. In addition, such sums as may be necessary for administrative expenses to carry out the credit program may be derived from amounts available for administrative expenses to carry out the credit and insurance programs in the Overseas Private Investment Corporation Noncredit Account and merged with said account. (*Department of State, Foreign Operations and Related Programs Appropriations Act, 2009.*)

### ***OPIC Transfer Authority***

*(Including Transfer of Funds)*

Whenever the President determines that it is in furtherance of the purposes of the Foreign Assistance Act of 1961, up to a total of \$20,000,000 of the funds appropriated under title III of this Act may be transferred to, and merged with, funds appropriated by this Act for the Overseas Private Investment Corporation Program Account, to be subject to the terms and conditions of that account: Provided, That such funds shall not be available for administrative expenses of the Overseas Private Investment Corporation: Provided further, That designated funding levels in this Act shall not be transferred pursuant to this section: Provided further, That the exercise of such authority shall be subject to the regular notification procedures of the Committees on Appropriations. *(Department of State, Foreign Operations and Related Programs Appropriations Act, 2009.)*

### ***Export Financing Transfer Authorities***

*(Including Transfer of Funds)*

Not to exceed 5 percent of any appropriation other than for administrative expenses made available for fiscal year [2009] 2010, for programs under title VI of this Act may be transferred between such appropriations for use for any of the purposes, programs, and activities for which the funds in such receiving account may be used, but no such appropriation, except as otherwise specifically provided, shall be increased by more than 25 percent by any such transfer: *Provided*, That the exercise of such authority shall be subject to the regular notification procedures of the Committees on Appropriations. *(Department of State, Foreign Operations and Related Programs Appropriations Act, 2009.)*

## Appendix B: Budget and Analysis Tables

**Table B-1 FY 2010 Request**

<b>Appropriated Resources (Dollars, Millions)</b>	<b>FY 2008 Enacted</b>	<b>FY 2009 Enacted</b>	<b>FY 2010 Request</b>
<i>Gross Budget Authority</i>			
Administrative Expenses	\$ 47.5	\$ 50.6	\$ 52.3
Credit Subsidy	23.0	29.0	29.0
TOTAL, Gross Appropriations	\$ 70.5	\$ 79.6	\$ 81.3
Net Offsetting Collections	(235.0)	(249.6)	(237.8)
<b>Net (Negative) Budget Authority</b>	<b>\$ (164.5)</b>	<b>\$ (170.0)</b>	<b>\$ (156.5)</b>
Memo: Transfer Authority	\$ 20.0	\$ 20.0	\$ 20.0

**Table B-2 Summary of Credit Funding Request**

<b>(Dollars, Millions)</b>	<b>2008 Actual</b>	<b>2009 Enacted</b>	<b>2010 Request</b>
Credit Subsidy Appropriation	\$ 20.0	\$ 29.0	\$ 29.0
Carry-forward from Prior Year *	12.4	14.5	21.0
Transfers	5.0	-	-
Total Resources	\$ 37.4	\$ 43.5	\$ 50.0
Projected Activity			
Finance	1,446	1,350	1,750
Investment Funds	180	500	600
New Commitments	\$ 1,626	\$ 1,850	\$ 2,350

*Subsidy obligations are projections based on current pipeline and indicative cash flows. Subsidy is obligated on an individual transaction basis; therefore, individual transactions may vary widely from rates published in the President's Credit Supplement.*

See <[http://www.whitehouse.gov/omb/budget/fy2010/assets/cr\\_supp.pdf](http://www.whitehouse.gov/omb/budget/fy2010/assets/cr_supp.pdf)>

*\* Carry-forward amounts are related to: base appropriations resources still within the appropriated availability to obligate, recoveries of prior year obligations and also no-year appropriations related to Assistance for New Independent States of the Former Soviet Union. This amount is partly due to the fact that for six months of FY 2008, OPIC was unable to issue any new loans or guarantees since OPIC's Authorization had expired.*

**Table B-3 Insurance Program Activities**

(Millions of dollars)	2007 Actual	2008 Actual	2009 Projected	2010 Projected
Aggregate Maximum Insured Amount				
Start of year	\$ 6,585	\$ 6,268	\$ 5,169	\$ 4,619
Issuance during the year	613	625	650	850
Reductions/Cancellations	(930)	(1,200)	(1,200)	(800)
Outstanding end of year	\$ 6,268	\$ 5,410	\$ 4,619	\$ 4,669
Maximum Contingent Liability				
Statutory limitation**	\$ 29,000	\$ 29,000	\$ 29,000	\$ 29,000
End of year	3,391	2,922	2,819	2,790
Current exposure to Claims (CEC), end of year	2,410	2,245	1,895	1,800
Insurance Premium Revenue	\$ 22	\$ 20	\$ 20	\$ 20

Notes and Definitions

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

**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 the maximum amount of compensation for which OPIC would be liable, which is limited statute in the Foreign Assistance Act. Under most active OPIC contracts, investors may obtain all three coverages – inconvertibility, expropriation, and political violence – but aggregate claim payments may not exceed the single highest maximum insured amount for each contract.

**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.

## Appendix C: GPRA Annual Performance Plan/Report and Program Assessment Rating Tool (PART) Metrics

GPRA	PART PERFORMANCE GOALS Outputs & Outcomes		FY 2008		FY 2009	FY 2010
			Target	Actual	Target	Target
<b>Development Effects</b>	Projects	Finance Projects	95	93	98	100
		Insurance Projects	95	92	98	100
	Sub-Projects <sup>9</sup>	Investment Fund Sub-Projects	n/a	80	100	100
		Finance Sub-Projects	n/a	83	100	100
<i>Development Matrix score</i>	Average Projects & Sub-Projects		n/a	84	100	100
<b>Efficiency</b>	SBC Cycle Time	Insurance	70	54	70	70
		Finance	70	51	70	70
	Operate in a businesslike manner. Improvement Action: Application Integration Migration (AIM Phases I and II) will improve support of integrated business processes and internal controls by replacing legacy systems / technology.		Internal Controls COOP	Phase I AIM	Phase I AIM Phase II AIM	
<b>Risk Mitigation and Corporate Citizenship</b>	Maintain or improve monitoring tempo of existing deals for issues which would affect OPIC's development mission and risk of repayment.		Ensure self-monitoring on all active projects.			
	Mitigate risk through sound portfolio management, project development practices, and incentives to encourage good corporate citizenship.		Site monitor sensitive projects no later than 3 <sup>rd</sup> year of operation.			
	% of on-going OPIC Projects monitored for compliance with OPIC's U.S. effects, environmental, and worker rights standards.		100%	93%	100%	100%
<b>Additionality</b>	Ensure additionality and private sector participation to ensure that OPIC leverages, but does not compete with, the private sector.		n/a	92	92	93
<b>Policy priority sectors</b>	(See FY Budget narratives for FY 2009, FY 2010)		West-Bank Gaza		Housing Gen. America Microfinance	Renewable Energy Trade Capacity
<b>Small Business</b>	Ensure that OPIC support is provided to small U.S. businesses. Increase Outreach to SMEs; Especially those owned by women and minorities.		Implementation of EDN concept		Expand Outreach	

<sup>9</sup> Sub-Projects are investments or loans made under an OPIC facility and evaluated by OPIC. FY 2007 is the first year of data collection and reporting for sub-projects. As a result, the depth of available information is still maturing. Scores are indicative of development impact, but OPIC expects that this population will, in time, progress to a level on par with OPIC's other projects.

## Appendix D: Development Matrix

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### EXPANDED DEVELOPMENT IMPACT MATRIX (XDIP)

OPIC's core mission is to promote private U.S. investment that will contribute to the economic development of the world's less developed countries. OPIC selects projects that are likely to serve as foundations for long-term economic growth, especially those that improve upon the host country's infrastructure and provide the basic human necessities of shelter, food, water and health care. To support its developmental mission, OPIC evaluates and scores every proposed project in 26 key areas across three broad categories that objectively quantify its expected contribution to host-country development.

- Category I covers job creation, training, local procurement, corporate social responsibility, and equal employment opportunity – five highly-weighted impacts that should be demonstrated by any project, regardless of sector or the level of economic development within the host country.
- Category II covers 20 additional development indicators within such broad areas as human capacity building (degree of training), private sector development, resource leveraging, social effects, infrastructure improvements, macroeconomic and institutional effects, and technology/knowledge transfer. The degree to which projects demonstrate these additional developmental benefits depends significantly on the features of a given project.
- Category III adjusts for the host country's per capita GNP, reflecting both OPIC's priority to steer investment into the poorest countries and the reality that nations most in need often lack the capacity to support more developmentally sophisticated investments.

A project must score at least 50 on the matrix to be considered *developmental* and clearly eligible for OPIC support. A score of 100 or more qualifies a project as *highly developmental*. OPIC's long-term goal is to achieve an average development rating of 100 across all business lines.

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## FINANCIAL SERVICES DEVELOPMENT IMPACT MATRIX (finDIP)

Over the past several years, OPIC support of financial sector projects has increased steadily. In order to capture accurately the developmental impact of these projects, OPIC developed the financial services development impact matrix (finDIP), using the XDIP framework and information gathered from other U.S. and multilateral agencies. The finDIP matrix consists of four Core Development Indicators, six Supplemental Development Indicators, and a GNP Per Capita Indicator:

- The four Core Development Indicators are financial instrument innovation/augmentation, capital mobilization, multiplier effects, and corporate governance.
- The six Supplemental Development Indicators are sustainability, economic diversification, macroeconomic and institutional impacts, corporate social responsibility, human capital improvements, and transfer of technology and knowledge.
- The GNP per Capita Indicator takes into account the host country's level of development and reflects OPIC's priority to steer investment into the poorest countries.

For the sake of consistency and uniformity, the finDIP and XDIP score ranges are the same. Scores range from 0 to 160 and are divided into three possible ratings. A score of 1 to 49 is *Minimally Developmental*, 50 to 99 is *Developmental*, and 100 to 160 is *Highly Developmental*. Projects with a score of 0 are *Not Rated*. In general, OPIC refrains from supporting projects in which the development score falls below 50, unless the project serves a foreign policy priority or another priority of the Agency as determined by the President's office. The tool was implemented in Fiscal Year 2007, and data from the financial services development matrix will be reported in the 2008 Policy Report.

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## [Appendix E: Program Assessment Rating Tool](#)

OPIC has been evaluated as “moderately effective”, and marked improvement across the board on a range of issues. Links to the assessment are available below.

### OPIC Insurance Program

See <<http://www.whitehouse.gov/omb/expectmore/summary/10001169.2006.html>>

The screenshot shows the ExpectMore.gov website interface. At the top, there are navigation links for Home, About Us, Contact, and What's New. Below the site logo, a navigation menu includes 'PROGRAM' (View Assessment Details), 'RATING' (What This Rating Means), and 'IMPROVEMENT PLAN' (About Improvement Plans). The main content area is titled 'PROGRAM ASSESSMENT' and features a large star graphic. The assessment is for the 'Overseas Private Investment Corporation - Insurance' program, which is rated 'PERFORMING' and 'Moderately Effective'. The text describes the program's goal of fostering economic development in new and emerging markets by providing political risk insurance. It lists several key findings: the program is well-managed and has improved its strategic planning; it has instituted a requirement for project sponsors to seek insurance from at least two private insurance companies; and it has improved interagency coordination, cooperation, and transparency. A section titled 'We are taking the following actions to improve the performance of the program:' lists actions such as improving coordination, monitoring implementation, and trying resource allocation. A 'LEARN MORE' section provides links to view similar programs, how all federal programs are assessed, and learn more about the insurance program. The footer contains a disclaimer and links for FAQ, Privacy, Site Map, Accessibility, and FOIA.

### OPIC Finance Program

See <<http://www.whitehouse.gov/omb/expectmore/summary/10000388.2006.html>>

The screenshot shows the ExpectMore.gov website interface for the 'Overseas Private Investment Corporation - Finance' program. The layout is consistent with the previous screenshot, featuring the same navigation and star graphic. The assessment is for the 'Overseas Private Investment Corporation - Finance' program, which is rated 'PERFORMING' and 'Moderately Effective'. The text describes the program's goal of fostering economic development in new and emerging overseas markets by providing medium to long-term loans or guarantees to eligible U.S. companies. Key findings include: the program has developed strong long-term goals, such as increasing the number of jobs created per \$1 million invested; in the past, the Finance deal-originating departments have not been sufficiently independent from the Corporation's credit review process; and the program has improved interagency coordination, cooperation, and transparency. The 'We are taking the following actions to improve the performance of the program:' section lists actions such as improving coordination, ensuring the independence of the Credit Committee, improving public disclosure, and reviewing developmental standards. The 'LEARN MORE' section provides links to view similar programs, how all federal programs are assessed, and learn more about the finance program. The footer contains a disclaimer and links for FAQ, Privacy, Site Map, Accessibility, and FOIA.