

**BUDGET REQUEST**  
**FISCAL YEAR 2009**



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

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**Overseas Private Investment Corporation**

**Congressional Budget Justification**  
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## EXECUTIVE SUMMARY

**OPIC's mission is to help mobilize and facilitate U.S. private capital investment in developing and emerging market countries.** Recognizing that only the private sector can drive sustained economic development, OPIC supports private investment in challenging environments through political risk insurance, investment guarantees, and direct loans.

While OPIC was created to help U.S. businesses compete in these challenging environments, it was also created to help support and advance American foreign policy. It is in that regard that OPIC has renewed its focus. Helping create economic hope and opportunity in countries in which conflict is either still underway, or recently ended, must be an integral part of any policy aimed at stabilization and peace. That means adding quick and discernable economic growth through private capital investment as a tool deployed simultaneously with other initiatives undertaken in support of freedom and democracy.

**OPIC has worked closely with other departments and agencies of the Executive Branch to augment U. S. foreign policy objectives with catalytic, and often transformational, economic investments.** Whether it is long-term, fixed rate mortgages for low- and moderate-income home buyers in Latin America, a \$228 million small business lending facility in the West Bank, a private equity fund to broaden and deepen African capital markets, or helping fund a hotel in Kabul, Afghanistan, OPIC is making a valuable contribution to the achievement of U.S. foreign policy objectives in critical regions of the world.

Coordinating and collaborating with other departments of the Government enables OPIC to use limited public resources to leverage billions of dollars of private capital investment in support of job creation and economic growth. This is not only consistent with OPIC's mandate to advance U. S. foreign policy, but it is also entirely consistent with its mission as a developmental agency.

**OPIC's principal geographic priorities are the Broader Middle East, selected countries in Latin America, and Sub-Saharan Africa.** OPIC seeks to concentrate its support in these countries in sectors where it will have the greatest impact on economic growth and poverty reduction. By helping facilitate economic opportunities for low and moderate income citizens, OPIC hopes to help broaden political support for market-oriented policies. Consequently, OPIC has placed particular focus on low and moderate income home ownership and access to credit for small and medium-sized businesses (SMEs).

In order to fulfill its mission to leverage private sector investments in support of Administration foreign policy priorities, and to do so in a responsible and accountable manner, **OPIC requests the following resources for FY 2009 all to be funded from OPIC's own offsetting collections:**

| Appropriated Resources<br>(Dollars, Millions) | 2007<br>Actual | 2008<br>Enacted | 2009<br>Request |
|---|----------------|-----------------|-----------------|
| Administration                                | \$ 42.1        | \$ 47.5         | \$ 50.6         |
| Subsidy                                       | 20.1           | 23.0            | 29.0            |
| Net Offsetting Collections                    | <u>(254.2)</u> | <u>(235.0)</u>  | <u>(249.6)</u>  |
| Net Negative Budget Authority                 | \$ (192.0)     | \$ (164.5)      | \$ (170.0)      |
| Transfer Authority                            | Up to \$20m    | Up to \$20 m    | Up to \$20m     |

## INTRODUCTION

OPIC facilitates U.S. private investment in developing countries and transition economies to spur their economic development. Private investment is the most effective engine of economic growth. **Advancing the economic growth of poor countries through private investment is in the interest of the United States** because it will strengthen support for market-oriented economic policies worldwide, achieve greater political stability in countries that have suffered from a history of conflict, and create dependable trading partners for the United States.

In countries where the United States is fighting terrorism, private sector driven economic growth has to be a core part of any solution, and the U.S. private sector can play an important role alongside the government in making it happen.

**OPIC has a solid, 36-year track record of supporting U.S. private investment in the developing world through political risk insurance and financing.** This support has been provided at no net cost to the taxpayer, since OPIC generates more in fees and insurance premiums than it spends in administrative expenses and payments on claims. OPIC has been able to achieve this outcome through financially sound credit and insurance underwriting decisions and judicious use of the leverage OPIC can exert as an arm of the U.S. government. OPIC's favorable track record can be seen in the budget in the \$4.5 billion accumulated in its Noncredit Account and in OPIC's \$5.4 billion in GAAP reserves.

**OPIC has continued its efforts to ensure that its investment projects have a significant developmental benefit in host countries and that OPIC insurance and financing does not displace the private market.** OPIC concentrates its support on highly developmental projects in challenging economic environments. But these projects would not be pursued by the private investors on their own because of the higher risks involved. OPIC support can make such projects commercially viable by reducing the political risk through insurance or by reducing the commercial risk through guarantees. OPIC uses rigorous analytical methods to determine the developmental quality and degree of additionality of any project.

**While OPIC is ready to support highly developmental investment projects in any OPIC-eligible country, it proactively seeks out projects in high priority areas and countries that are important from a U.S. foreign policy perspective or countries and sectors where OPIC support can make a real difference.** OPIC's regional priorities are the Broader Middle East (including Afghanistan and Pakistan), select countries in Latin America, and Sub-Saharan Africa. OPIC's focus on the Broader Middle East is driven by a belief that an improvement in economic conditions is a requirement for greater peace, stability, and democratic reform in the region. OPIC's focus on Central America/Mexico and Peru/Colombia is driven by a desire to demonstrate that the policy choice these countries have made to pursue a closer economic relationship with the United States will yield economic benefits. OPIC's focus on Sub-Saharan Africa is driven by a global recognition that Africa needs to further engage with the global economy to overcome its history of poverty and lack of economic progress.

**OPIC has identified three sectors in particular where OPIC can make a real difference: housing, access to credit for small and medium enterprises, and renewable energy.**

**Housing meets a fundamental human need and is a major generator of jobs, but it also creates a framework for the accumulation of capital.** Most notably, home ownership creates an asset that the homeowner can use to secure small business loans and other investments such as training or education. This supports grass roots capitalism by increasing the supply of loan capital that can be made available to new entrepreneurs and small businesses. An increase in the supply of credit to small enterprises ensures that individuals with entrepreneurial skills have the ability to grow a business. Together, investment in housing, and in financial institutions willing to extend credit to small businesses and grass roots entrepreneurs, can make a real difference in the lives of the people at the lower end of the income scale. It is vital that the poor realize the benefits of economic growth in order to create broad political acceptance of open, market oriented policies, and to blunt the terrorist message. Helping small business to get off the ground is one of the most effective ways of accomplishing that goal.

**OPIC has also been successful in supporting small U.S. businesses interested in investing in developing countries.** By helping small American businesses to invest, OPIC benefits both the U.S. economy and the economies of the host countries. The U.S. economy will benefit because small businesses have to become engaged in global markets to remain competitive, and by helping them to invest abroad, OPIC helps them to succeed in the highly competitive global economy. The opportunities open to small businesses have always been one of the major sources of the strength and success of the U.S. economy. Similarly, the host country economy will benefit because small businesses are likely to provide effective peer transfer of managerial know-how, entrepreneurial spirit and business practices.

**OPIC considers clean energy a strong complement to its developmental activities.** The emergent public interest in cleaner sources of energy complements OPIC's capability to mobilize private investment and its mission to promote economic development. OPIC is exploring ways to contribute in this sector.

**OPIC in recent years has reinforced its focus on its core mission of economic development by developing and applying a comprehensive tool to measure the development impact of projects.** Using these tools, OPIC holds individuals and the organization as a whole 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.

## **FY 2009 REQUEST**

**OPIC requests the following FY 2009 appropriations to be self-funded from its offsetting collections:**

- \$50.6 million to support program administration
- \$29.0 million in credit subsidy funding

### **Administrative Expenses**

The President's Budget requests a FY 2009 appropriation of \$50.6 million for administrative expenses. This \$3.1 million increase over the FY 2008 level includes resources to be used for capital investments in information technology to address postponed technology infrastructure projects.

OPIC's administrative resources request comes in the context of a growing workload which results from the following:

- Successful past efforts at developing small business transactions have moved past the point of commitment and are now rapidly disbursing.
- The new Rapid Economic Development Initiative (REDI) which seeks to achieve tangible economic progress over the near term in selected high foreign policy priority countries.
- New monitoring and reporting requirements of transactions. The number of loans and loan guarantees outstanding have grown at a far faster rate than OPIC's resources.

These requirements cannot be met without additional personnel and technology resources. OPIC expects to be able to meet many of these requirements in the enacted FY 2008 budget; however, the FY 2009 request is necessary to continue work on all of the above requirements.

### ***Technology***

OPIC recognizes that an effective Information Technology (IT) System requires good integration of information resources, processes and people. The IT strategic plan focuses on an effective integration of these components to support OPIC's strategic objectives. OPIC's IT strategy is designed to serve customers better by streamlining the 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 2009 consists of two elements: Follow-on efforts with OPIC's Application Integration and Migration (AIM) program and several supporting projects.

OPIC's core technology system is built on an antiquated software architecture which limits operational reliability and flexibility. To address these limitations and to keep pace with evolving financial audit and internal controls standards, OPIC is updating its core systems. OPIC is evaluating all alternatives, in particular Credit Reform compliant products that have recently entered the market. These products present opportunities to minimize the technical implementation risk, reduce future maintenance costs, and enhance reporting tools.

Within the AIM program, OPIC is working on multiple projects, including projects to improve the loan origination process, to modernize the insurance system, and to improve the accounting, budget, and procurement processing systems. These projects are intended to upgrade and integrate a patchwork of stand-alone systems that do not adequately support workflow, track documents, or analyze outstanding commitments. These planned improvements within the AIM program will make it possible to achieve a much closer integration with OPIC's financial, risk, and reporting systems.

OPIC also has several IT projects that are necessary for modernization of existing software and ensuring future integration with new systems. For example:

- Improvements to meet existing and new OMB regulations for records management, protection of personal information, and information security.
- Improving business analysis capabilities through reporting tools which integrate balkanized databases.
- Strengthening capacity to support foreign currency transactions, which are important to lending for housing and microfinance.

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

### *Human Resources*

OPIC expects to use new resources made available in FY 2008 to strengthen its staff resources dedicated to:

- Protecting and responsibly managing the financial risks of the portfolio.
- Delivering more transparency to the interagency community and to the public.
- Focusing origination in policy priority countries and sectors.

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

For example, OPIC has developed a workforce strategy that:

- Trains personnel in critical skills to meet new challenges in capital markets development, policy priority areas, and in small business lending.
- Realigns the skill set of OPIC's workforce through new hires to better meet OPIC's evolving priorities.

### Credit Funding Request

The President's FY 2009 Budget requests a credit reform funding level of \$29 million to meet both normal subsidy requirements as well as to give OPIC greater flexibility to address foreign policy priorities in areas such as Afghanistan, Pakistan, West Bank, Lebanon, and Sub-Saharan Africa. OPIC requests three-year availability as provided in the FY 2008 appropriation.

OPIC is requesting an increase in FY 2009 to reflect the expected subsidy costs of:

- Continuing to support foreign policy priorities through lower fees and interest spreads on transactions where necessary.
- A robust housing pipeline focused on lower and middle income homeowners.
- Small business lending, which generally draws relatively high levels of subsidy, even with small transaction sizes.

OPIC is also requesting continuation of \$20 million in transfer authority first enacted in FY 2006. This authority provides an important flexibility to allow OPIC to respond to foreign policy priorities.

OPIC forecasts that the requested budget can support estimated lending levels of \$1.8 billion dollars in direct and guaranteed loans.

## Strategies, Goals 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.** The Agency has a comprehensive analytical tool for measuring the developmental impact of individual OPIC supported projects - the Development Matrix. 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 40 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.

Table 1 below summarizes the anticipated developmental impact scores for projects through Fiscal Year 2007, as well as the targets set by OPIC for projects through 2009.

**Table 1 Development Scores**

|                                 | 2006   | 2007   |          | 2008   | 2009   |
|---------------------------------|--------|--------|----------|--------|--------|
|                                 | Actual | Target | Estimate | Target | Target |
| Number of Projects <sup>1</sup> | 70     | NA     | 55       | NA     | NA     |
| Un-weighted Average             | 97     | 95     | 99       | 98     | 100    |
| Weighted by Dollar Investment   | 94     | 95     | 105      | 98     | 100    |

### *Serving the Customer Efficiently*

**OPIC management has made efficient customer service one of its key priorities.** In FY 2007, 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. To pinpoint the reforms and initiatives that would enable the corporation to meet the needs of its customers more effectively, OPIC carried out a comprehensive customer survey.

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<sup>1</sup> The number of Projects as reported in this table does not include sub-projects under framework agreements and investment funds. If sub-projects are included, the total number of projects would be 139. See Appendix C for further detail.

In response to the survey, OPIC initiated a number of reforms. For example, OPIC has overhauled its website, to make it more efficient, user-friendly, and accessible. OPIC has also put the finance application on-line and made it more user friendly by putting it into plainer language. OPIC has also reduced the burden on applicants by adopting a two stage application process. Applicants are first asked to respond to a set of questions in Part I designed to establish whether the project is eligible for OPIC support. They do not need to fill out the more detailed questions in Part II until their answers in Part I have established that they meet the eligibility criteria. This will save time for both the applicant and for OPIC, when projects do not fit OPIC's program criteria.

### *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 is directed to support – can only be achieved when the benefits of OPIC supported projects are openly channeled to promote host countries' economic growth and not corruptly diverted to anyone's personal enrichment.

**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>2</sup>

**Chief among the reforms of the Anti-Corruption and Transparency 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 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 encourages sponsors to agree to EITI guidelines on projects receiving OPIC support.

**OPIC has historically 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

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<sup>2</sup> See <<http://www.opic.gov/about/Transparency/index.asp>>

projects and sponsors.<sup>3</sup> For example, 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.

As a practical tool, 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 make appropriate referrals to the Department of Justice. OPIC has also established a corruption hotline, which anyone may call either to report potential irregularities in OPIC-sponsored projects or to ask compliance questions.

To increase the transparency of OPIC operations, OPIC has taken steps to identify and to make public earlier in the review process issues that potentially have adverse consequences. Going forward, OPIC will require enhanced consultation with locally affected communities on what the agency calls 'Category A' projects – 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 now includes non-business confidential summaries of major OPIC-sponsored projects and non-business confidential versions of certain environmental documents on Category A projects.<sup>4</sup>

The Anti-Corruption and Transparency Initiative is the product of extensive efforts to reach out to stakeholders in Congress and the nongovernmental community. It is a significant step to ensure that OPIC-supported projects meet a high standard of accountability. Transparency International-USA, part of the global civil society organization leading the worldwide fight against corruption, welcomed OPIC's Anti-Corruption and Transparency Initiative as an important element of the Administration's anticorruption agenda.

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<sup>3</sup> See <<http://www.opic.gov/about/Transparency/documents/opicanticorruptionhandbook0906.pdf>>

<sup>4</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)>

### *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. OPIC has also 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.
- Determine that OPIC has adequate administrative and financial control.
- Review the financial statements.
- Provide oversight regarding the Corporation's internal audit functions and its independent public accountants.

The Audit Committee is currently conducting a risk assessment and three-year audit plan. In FY 2008 they will issue their first internal control audit report.

### **Regional Foreign Policy Priorities: Broader Middle East, Selected Latin American Countries, & Sub-Saharan Africa**

OPIC's economic development mission is guided by the U.S. foreign policy objectives. Within those objectives, OPIC has identified three regions of the world where its programs could have the greatest impact in supporting U.S. foreign policy objectives - the Broader Middle East, selected countries in Latin America, and Sub-Saharan Africa. **OPIC-supported private investment in the three priority regions can advance U.S. foreign policy objectives in the following ways:**

- ***Broader Middle East*** - OPIC supported private investments can create hope through increased employment and demonstrate economic benefits of reduced conflict, greater democracy and increased openness.
- ***Selected Countries in Latin America*** - strategically positioned U.S. private investments can improve local economic opportunities and thus reduce the pressure to migrate. It will also help demonstrate that the free trade agreements with the United States have real economic value. This can help bolster political support for governments that favor a good relationship with the United States, and can help build a breakwater against potentially destabilizing influences.
- ***Sub-Saharan Africa*** - OPIC-supported U.S. private investment plants the seeds of economic progress, which can put Africa on the path toward greater economic growth and full integration into the global economy.

### *Rapid Economic Development Initiative (REDI)*

In order to energize economic activity in countries that need to overcome the legacy of conflict, OPIC has developed what it calls the Rapid Economic Development Initiative (REDI). **REDI is aimed at countries such as Afghanistan and the West Bank, torn by current conflict, and countries such as Lebanon and Liberia seeking to recover from recent conflict.** 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. What is needed in such countries is investment that can rapidly create jobs, raise incomes, and increase the popular stake in peace and stability.

**REDI aims to achieve tangible economic progress over the near term by expediting the implementation of OPIC supported projects.** In these countries, OPIC proactively seeks out and works with investors and partner organizations to launch projects that together will help the country to jumpstart economic growth.

OPIC's new approach under the REDI program is best illustrated by its **Liberia** program. To help give the democratically elected new leader of that country, President Ellen Johnson-Sirleaf, the early economic successes she needs to put the country on a sound path toward peaceful and stable growth, OPIC developed a comprehensive strategy for attracting private investment. To identify the strategic challenges and opportunities in that country, OPIC sent a multi-disciplinary team to Liberia to evaluate potential investments and the obstacles to their success. OPIC then organized a meeting with representatives of over 40 government agencies, private foundations, NGOs, private corporations and academics involved in Liberia. Participants shared their insights on the economic conditions and problems facing the country and exchanged information on planned economic development projects and private investment proposals.

Following the meeting, OPIC helped organize a private sector investment forum for Liberia in collaboration with the IFC, and the Corporate Council for Africa. OPIC subsequently worked with a number of the organizations and corporations that attended these functions to launch joint initiatives. For example, OPIC launched a joint initiative with CHF International and RLJ Companies LLC to establish the Liberia Enterprise Development Finance Company. This new financial institution will provide over \$50 million in financing for small and medium sized enterprises over 15 years.

In **Liberia**, OPIC also provided PRI coverage to the International Rescue Committee (humanitarian assistance) and Lachamco (leasing of construction equipment and tools), and is pursuing discussions with a number of other investors. For example, OPIC is working with USAID and the IFC to revive a rubber plantation that failed as a result of the civil war, and OPIC is pursuing discussions with a private investor interested in using wood-chips from fallow rubber trees as fuel for renewable power. Beyond these initiatives, OPIC is in discussion with a number of corporations and NGOs on projects it could support through guarantees or direct loans, including a microfinance project, heavy equipment leasing project, and several housing deals.

**OPIC has also used the REDI approach to launch projects in Lebanon and the West Bank.** In Lebanon, OPIC and Citigroup Corporate and Investment Bank are working together to aid the country's recovery by channeling private capital to Lebanese banks to fund \$120 million in loans. OPIC has also helped rebuild the Cooperative Housing Foundation's (CHF) AMEEN Finance Company in Lebanon with a disbursement of a \$24 million loan. This loan has enabled CHF to support lending by Lebanese banks to small businesses and homeowners who needed to rebuild in the aftermath of the recent conflict. OPIC was able to mobilize and complete this facility within six months of the cessation of hostilities. In the **West Bank**, OPIC teamed up in 2007 with the Aspen Institute and the Palestinian Investment Fund to create a small business lending facility of \$228 million.<sup>5</sup> This facility will make capital available to local financial institutions, so they can lend to downstream Palestinian borrowers on affordable terms. OPIC also is working with the Palestinian Investment Fund and the Aspen Institute on a \$250 million mortgage facility, half of which we would plan to commit in FY 2008, and the other half in FY 2009.

OPIC is also using the REDI approach to support innovative investments in Afghanistan and Pakistan, where a lack of economic opportunity is creating a breeding ground for terrorists.

**Sectoral Priorities – Housing, Access to Credit by Small and Medium Enterprises, Microfinance, and Renewable Energy**

OPIC is prepared to support projects in almost any sector, provided it does not create adverse economic effects in the U.S., and meets other statutory requirements. **OPIC has designated the following sectors – housing, access to credit for micro, small and medium enterprises, and renewable energy – as priority sectors where OPIC is playing an important leadership role in attracting private investment.** OPIC believes that its support for U.S. private investment in these sectors can have a proportionally large economic development impact by: stimulating economic activity and entrepreneurship at the grass roots level – enabling individuals at the lower levels of the income scale to obtain the financial resources needed to start and grow a small business or the education of family members, or by renewable energy which can provide developing countries with cleaner options to power their development.

Mortgage-financed **owner occupied housing** not only offers shelter and labor intensive jobs but also creates a platform for saving that can become the means to start a business. The establishment of small business finance facilities and microfinance institutions functionally complements the initiatives in housing by providing the institutional capacity to finance the growth of a small business. These OPIC initiatives expand the pool of primary mortgages; help create secondary markets; and brings the power of credit and global capital markets to financial institutions involved in housing, SME credit, and microfinance to dramatically improve the lives of the poor.

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<sup>5</sup> See <<http://www.opic.gov/news/pressreleases/2007/pr072507.asp>>

## *OPIC Support for Housing*

In FY 2007, OPIC continued to expand its support for low- and- medium-income, housing in Africa, Central America and the Middle East.

### *Africa*

**During the past three years OPIC has built an African housing portfolio of nearly \$400 million.** As a result of outreach efforts over the past year, including a very successful investor housing conference in South Africa, OPIC has now generated a significant additional pipeline of projects and investor relationships that is expected to result in a steady volume of new projects in 2008 and beyond.

**Countries in which OPIC has supported housing projects include South Africa, Ghana, Kenya, Zambia, Uganda, and Tanzania.** Some upcoming projects in Africa include:

- Liberia – there are three projects pending that will help to jump start both housing construction and mortgage industries.
- Africa and the Middle East – International Housing Solutions (IHS) manages the new Emerging Markets Housing Fund, a targeted \$300 million fund that will provide private investment capital and affordable housing finance experience to markets experiencing rapid growth in housing demand with acute housing needs at the lower end of the income spectrum. The fund will have a primary focus on the supply constrained housing markets in South Africa and Jordan. OPIC will provide up to one-third of the total capital of the fund.

OPIC has also completed a feasibility study for the creation of a mortgage insurance entity in Kenya, which could become a ‘demonstration’ project for other countries in Africa.

### *Central America*

**OPIC launched a number of new initiatives in the housing sector in Central America over the past few years,** and an investment conference OPIC organized in El Salvador is generating additional new housing opportunities in Guatemala, El Salvador, Honduras, Nicaragua, and elsewhere. Overall, OPIC has received \$350 million in new housing project applications in Central America over the past year.

OPIC’s signature Central American project is Inter-Mac International, which will provide \$70 million in lease purchase and mortgage financing for low income homebuyers throughout Central America, enabling, for example, workers in Honduras to lease-purchase \$10,000 homes.

OPIC has also joined forces with the U.S. owner of a group of banks in the region known as the Lafise Group to help fill the shortfall in long-term, fixed-rate financing for housing mortgages in Honduras, Costa Rica, and Nicaragua. This model of working through

established, local financial institutions has proved both successful and efficient. To date, OPIC has committed or approved a total of \$152 million, through nine separate corporate finance loans and political risk insurance. All of the operational cash flow is available to repay loans, and the debt is collateralized by the defined pool of mortgages generated by the OPIC financing. OPIC's loan terms have ranged from 15 to 25 years, thus enabling the bank to make long-term fixed rate mortgages available mostly for low-to-middle-income home owners.

OPIC has also signed an MOU with the Commission for Export and Investment in the Dominican Republic, to help develop a national low income housing construction and mortgage initiative, which is expected to finance more than 10,000 new houses in the coming three years.

OPIC will provide up to one third of the capital for the Alsis Latin American Mortgage Fund (Alsis). This targeted \$300 million fund will seek to stimulate new housing by originating and investing in residential mortgages in Latin America. Alsis will expand and advance local capital markets by securitizing mortgage pools targeted at both domestic and international investors. The fund will invest in OPIC eligible countries with initial focus on Mexico and Central America. This fund had its first closing in July 2007.

#### *Middle East*

**OPIC has been able to generate significant interest in opportunities for housing projects in the Middle East.** Two housing/mortgage facilities were approved in FY 2007 for Lebanon, and applications are pending for mortgage finance programs in the West Bank. OPIC also closed the first construction loan for a 385 unit housing project in Erbil, Iraq and is processing a \$35 million mortgage and construction facility in the same region. Another program approved in 2007, the Israeli Mortgage Bond Securitization project, will support the development of long term capital markets funding for mortgages in Israel with an OPIC commitment of \$120 million. The OPIC supported new Emerging Markets Housing Fund will invest a total of \$60 million in Jordan.

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

Many developing countries lack financial institutions that are prepared to take the risk of lending to small and medium sized enterprises without excessive collateral. The economic development community has come to recognize the importance of filling this gap since SMEs are the principal creators of jobs. Supporting SMEs is a key element in any strategy to energize private sector driven economic growth in these countries.

As part of its overall strategy to support grass roots capitalism, OPIC has taken on a pioneering role in this area by developing a number of different business models for supporting SME lending in developing countries on reasonable terms and attractive maturities.

OPIC has used framework agreements to persuade banks to expand lending to priority sectors such as housing and SMEs. Under a framework agreement OPIC commits itself to support loans up to a value and under conditions spelled out in the agreement. For example, under the recent expansion of OPIC's framework agreement with Citibank, \$45 million of the \$150 million in loans guaranteed by OPIC is reserved for loans to qualified SMEs. Under another loan agreement, OPIC is making available \$100 million to ZAO Europlan to support the leasing of equipment and vehicles to small and medium enterprises in the Russian Federation.

**OPIC has launched a major and innovative new initiative to increase lending to SMEs in Latin America.** OPIC has partnered with the Treasury Department and the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) to tackle a number of interrelated problems that currently block lending to SMEs. The Treasury Department will provide technical assistance to Latin American governments for legal and regulatory reforms designed to facilitate small business lending. The IDB will provide technical assistance to local financial institutions in Latin America to enhance their ability to evaluate the credit quality of small business loans and to strengthen their institutional capacity to make SME loans. OPIC anticipates making \$150 million available to support SME lending in Latin America through a number of different business models, including:

- 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.

OPIC has also used special purpose lending facilities in particular countries 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 will substantially enhance the ability of small Iraqi enterprises to import essential capital equipment and other inputs.

### *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. It also helps those with modest means to finance home improvements, health care and education for family members. 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.

As of December 31, 2007, OPIC has provided financing in the amount of \$250 million to 31 microfinance projects. Examples of some innovative transactions include:

- Global Partnerships Microfinance Fund 2006 – In 2006 OPIC made a \$4.4 million loan to help capitalize Global Partnerships Microfinance Fund, a US\$8.5 million microfinance investment vehicle (MIV) sponsored by Global Partnerships, a Seattle-based non-profit organization. This fund has now made loans to 14 MFIs in Bolivia, El Salvador, Guatemala, Honduras, Nicaragua, and Peru. It leverages philanthropic giving with the investment of private capital. By investing capital and management expertise in high-performing MFIs in the region, Global Partnerships supports their growth so that financial services can be made available to hundreds of thousands of new borrowers.
- Calvert Social Investment Foundation – OPIC made a \$10 million commitment to provide a senior subordinated standby facility to Calvert Social Investment Foundation. The OPIC guaranty facility will support the Calvert Social Investment Foundation as it expands the sale of its Calvert Community Investment Notes through MicroPlace. MicroPlace is a wholly owned subsidiary of eBay and provides an on-line system connecting social investors with microfinance projects overseas. It is expected to grow to hundreds of millions of dollars over time. With the launch of MicroPlace.com, consumers in the U.S. can use the internet to make microfinance investments that simultaneously provide a financial return while addressing global poverty.
- Citigroup Microfinance Framework – Through a framework agreement with Citigroup, OPIC as of December 2007, has committed over \$25 million to 11 microfinance institutions in 9 different countries (El Salvador, Philippines, Honduras, Morocco, Mexico, Kenya, Kazakhstan, and Uganda). This is a facility of up to \$100 million, of which up to \$70 million will be from OPIC.

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

- 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
- Taking some of the riskier tranches of risk to 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 umbrella funds that finance smaller MFIs with more limited access to capital
- Providing political risk insurance to microfinance institutions and their investments abroad.

### *Renewable Energy*

**OPIC considers environmental improvement and the use of cleaner forms of energy a strong part of its developmental activities.** OPIC's portfolio includes renewable energy projects generating a cumulative total of more than 2,200 MW of clean power, including hydro and wind. Many of these renewable energy projects involve U.S. small businesses. In addition, OPIC supports projects that incorporate highly efficient energy technology. Looking ahead, **OPIC hopes to do more clean energy projects including biomass and wind projects.**

OPIC's Investment Funds program is inviting proposals from qualified private sector fund managers for the formation and management of one or more private equity funds that will invest a majority of its capital in companies or projects within the Renewable Energy sector. While OPIC is primarily interested in supporting funds that will focus on investing in renewable energy companies or projects, funds may also invest in other related sectors in the field of energy and environmental sustainability, including energy efficiency systems and equipment, and water, waste and emissions control and treatment. OPIC will consider providing up to \$100 million in capital to one or more selected managers, and expects to select one or more managers to present to the September 2008 Board.

## Strategic Goals

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

**OPIC continues to place a special emphasis on helping 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 underwriting process for companies that qualify for OPIC's Small Business Center.

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 the same 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 return.

In FY 2006, OPIC supported 61 projects involving small- and medium sized enterprises, which accounted for 87 percent of the 70 projects OPIC approved that year. In FY 2007, OPIC supported 110 projects involving small enterprises, which accounted for 79 percent of the 139 projects that year.

In OPIC's portfolio of active projects, there are 13 small businesses that are self-identified as being owned by women or minorities. To increase that number further, OPIC has appointed an Outreach Coordinator for Minority and Women-Owned Businesses, who has organized an active program of workshops and speakers to reach out to women and minority entrepreneurs around the country.

**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.** Wide-ranging one-day programs attracted over 500 participants in workshops in Atlanta, Miami, Chicago, Los Angeles, Newark, Houston, and San Francisco. These workshops helped participants to deepen their understanding

of overseas investment opportunities and challenges, financial issues such as political risk insurance and access to capital, and federal assistance programs available to minority- and women-owned businesses from OPIC and other agencies. OPIC organized the Expanding Horizons workshops in cooperation with the U.S. Department of Commerce's Minority Business Development Agency and the National Women's Business Council.

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

**OPIC recognizes that it can better achieve its developmental mandates if it pursues its mission in close collaboration with its sister agencies in the government**, rather than in isolation. 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 backed 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 housing, title insurance and mortgages. Private investment supported by OPIC is similarly enhanced through the services provided by the Foreign Commercial Service of the Department of Commerce. Similarly, trade agreements negotiated by the U.S. Trade Representative remove obstacles to such investments. Trade agreements signal to investors that a market is now 'open for business'. By the same token, OPIC supported investments that build trade capacity reinforce MCC compacts and complement USAID grants. OPIC has made 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. 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 continues to be an important element of OPIC's capability to mobilize capital in developing countries. OPIC provides coverage for a range of investors, large and small, against the risks of inconvertibility, expropriation and political violence.

**OPIC Insurance works with the private insurance industry to find ways to provide complementary forms of coverage** that will encourage U.S. businesses to make 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 has also traditionally played an important role as an innovator, taking the lead where it can shape

the policy framework in developing innovative political risk insurance products that have not been tested in the market.

One such product is regulatory risk insurance, which OPIC is seeking to develop in consultation with investors, private insurers and other U.S. government agencies. While OPIC has covered regulatory risk under its existing expropriation coverage, a more clearly defined regulatory risk contract could play a significant role in facilitating private financing for infrastructure projects in the developing world.

Another area of innovation by OPIC is the use of the political risk insurance program to support the activities of non-profit organizations in developing countries, particularly in countries in post-conflict situations or recovering from natural disasters. For example: OPIC has also recently developed an Evacuation Insurance product designed to aid Schools and non-profit organizations that are required to evacuate their facilities due to political violence. The coverage is an add-on to OPIC's business interruption coverage and will cover expenses such as employee salaries, transportation, security, and other evacuation costs.

### *Increased Use by OPIC of Financial Intermediaries*

#### *Framework Agreements*

OPIC has been making extensive use of framework agreements with banks, other financial intermediaries, and non-profits. In the framework agreements OPIC has negotiated with a number of U.S. banks, under which these banks channel funds to correspondent banks in recipient countries, one of OPIC's overarching goals has been to channel some of the money to lower income market segments. The framework agreements with OPIC provide that the correspondent banks will allocate a percentage of the funds to specific priority sectors, regions, and lower income segments of the market. OPIC's Structured Finance Department thus continues to strengthen the developmental quality of all these projects by ensuring that a targeted portion of funds are targeting the more *highly* developmental segments of the specific markets.

#### *Enterprise Development Network*

OPIC in June 2007 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 (PRI) 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 will increase the access of small businesses to OPIC products and services. By empowering such service providers, the network will result in more efficient, cost-effective delivery of services to American and local businesses.

Initially, 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 completing application material that meet OPIC's standards and policy conditions for both OPIC Finance and Insurance programs.
- EDN Designated Lenders, financial institutions which establish OPIC-backed lending facilities, will provide loans to SMEs or their affiliates for projects in OPIC-eligible countries.
- EDN Advisers, specialists in particular business sectors and geographic areas, will assist OPIC in credit underwriting and due diligence on OPIC-funded loans.

In May, OPIC announced that Wells Fargo HSBC Trade Bank (the 'Trade Bank') would serve as an EDN designated lender through an agreement with OPIC to establish a \$100 million lending facility. This initial facility is expected to generate up to 50 loans over the life of the facility, as well as more than 1,000 host country jobs by its fifth year. Loans will range from \$3 million to \$15 million. The facility established with the Trade Bank is expected to be the first of a number of such facilities that will be sought to encourage significant growth through the network.

Twenty-one organizations collectively covering a broad range of industry sectors have agreed to serve as EDN Loan/Insurance Originators largely throughout the U.S. with some additional representation in Africa and Asia. The launching of EDN began with a two-day conference last June, which provided in-depth training to EDN Originators on OPIC policies and investment criteria. They were also taught how to improve their effectiveness in packaging applications in order to expedite the review and approval process for financing by OPIC or the other designated lenders.

#### *Investment Funds Support Administration Summit Initiatives*

At the Heiligendamm G-8 Summit, President Bush committed OPIC to support the creation of new private equity funds to mobilize up to \$1 billion of additional investment in Africa. These funds, part of the overall Africa Financial Sector Initiative (AFSI), will offer new financial instruments and services to African businesses, and new investment vehicles for investors. OPIC will provide financing between \$25 million and \$150 million for one or more investment funds to broaden and deepen capital markets in Sub-Saharan Africa.

### *Africa Capital Markets Fund*

**OPIC will provide financing of around \$100 million in financing for each fund to seed a number of new investment funds that will broaden and deepen capital markets in Sub-Saharan Africa.** OPIC's primary interest is to support funds that will provide African companies with new financing vehicles such as corporate bonds, mezzanine and convertible debt, as well as early stage capital. These funds were approved by OPIC's board in either September 2007 or January 2008.

- *Africa Catalyst Fund, L.P* has a targeted total Fund capitalization of \$300 million, with an OPIC guarantee of up to \$100 million. The Fund will invest in a portfolio of mezzanine finance, public and private equity, public debt, convertible bonds, and private loans to provide growth capital to small and mid sized enterprises ("SMEs") in Africa.
- *Africa Debt Fund* has a targeted total Fund capitalization of \$300 million, with an OPIC guarantee of up to \$100 million. The Fund plans to invest in a wide range of public and private debt instruments in Africa.
- *Atlantic Coast Regional Fund* has a targeted total Fund capitalization of \$150 million with an OPIC guarantee of up to \$50 million. The Fund plans to invest growth equity into companies in West and Central Africa, with a core focus in Angola, Cameroon, Cote d'Ivoire, Democratic Republic of Congo, Gabon, Ghana, Nigeria and Senegal.
- *Millennium Global Africa Opportunities* has a targeted total Fund capitalization of \$300 million with an OPIC guarantee of up to \$100 million. The Fund will invest in a wide range of public and private, debt and equity strategies in Africa, focusing on Anglophone East Africa and Francophone West Africa.

### *Africa Social Development Fund*

To tap the growing pool of investment capital seeking both social and financial returns, OPIC announced a call for proposals seeking to finance one or more selected funds **to invest in companies that will make a significant contribution to improve employment opportunities and the social well-being of people in Africa** while delivering positive financial returns for investors. The purpose of this Call was to identify qualified fund managers who are able to accomplish both of these objectives. Proposals could include, but were not limited to, any of the following: (a) small and medium-sized enterprises across all sectors, including social sectors described below; (b) enterprises of any size that advance social development or improve social infrastructure by investing in sectors such as water and sanitation, health, education, agribusiness (excluding biofuels), and energy access (e.g., green technologies, rural and renewable energy); and (c) enterprises of any size that provide goods and services to rural and other underserved markets (i.e., bottom of the pyramid delivery models). There were an overwhelming number of responses with fund proposals covering the call sector range

- *African Telecoms Media and Technology Fund* has a targeted total Fund capitalization of \$100 million, with an OPIC guarantee of up to \$50 million. The Fund plans to invest in East African technology, media and communications companies.
- *Africa Healthcare Fund* has a targeted total Fund capitalization of \$100 million, with an OPIC guarantee of up to \$50 million. The Fund plans to invest in small and medium sized private healthcare delivery businesses in Sub-Saharan Africa.
- *AfricInvest II Ltd* has a targeted total Fund capitalization of \$175 million with an OPIC guarantee of up to \$60 million. The Fund plans to invest in small and medium sized enterprises in OPIC-eligible countries in North Africa and Sub-Saharan Africa.

## 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: *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.

#### *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 Non-Credit 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: *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; funds obligated in fiscal year 2011 remain available for disbursement through 2019: *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.

***OPIC Transfer Authority***  
*(Including Transfer of Funds)*

Whenever the Secretary of State 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.

***Export Financing Transfer Authorities***

Not to exceed 5 percent of any appropriation other than for administrative expenses made available for fiscal year 2009, for programs under title II 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.

## Appendix B: Budget and Analysis Tables

**Table B-1 FY 2009 Request**

| <b>Appropriated Resources<br/>(Dollars, Millions)</b> | <b>FY 2007<br/>Actual</b> | <b>FY 2008<br/>Enacted</b> | <b>FY 2009<br/>Request</b> |
|---|---------------------------|----------------------------|----------------------------|
| <i>Gross Budget Authority</i>                         |                           |                            |                            |
| Administrative Expenses                               | \$ 42.1                   | \$ 47.5                    | \$ 50.6                    |
| Credit Subsidy  | <u>20.1</u>               | <u>23.0</u>                | <u>29.0</u>                |
| TOTAL, Gross Appropriations                           | \$ 62.2                   | \$ 70.5                    | \$ 79.6                    |
| Net Offsetting Collections                            | <u>(254.2)</u>            | <u>(235.0)</u>             | <u>(249.6)</u>             |
| <b>Net (Negative) Budget Authority</b>                | <b>\$ (192.0)</b>         | <b>\$ (164.5)</b>          | <b>\$ (170.0)</b>          |
| Memo: Transfer Authority                              | \$ 20.0                   | \$ 20.0                    | \$ 20.0                    |

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

| <b>(Dollars, Millions)</b>    | <b>2007<br/>Actual</b> | <b>2008<br/>Enacted</b> | <b>2009<br/>Request</b> |
|-------------------------------|------------------------|-------------------------|-------------------------|
| Credit Subsidy Appropriation  | \$ 20.0                | \$ 23.0                 | \$ 29.0                 |
| Carry-forward from Prior Year | 12.4                   | 1.0                     | -                       |
| Transfers                     | <u>5.0</u>             | <u>-</u>                | <u>-</u>                |
| Total Resources               | \$ 37.4                | \$ 24.0                 | \$ 29.0                 |
| Projected Activity            |                        |                         |                         |
| Finance                       | 1,446                  | 1,330                   | 1,350                   |
| Investment Funds              | <u>180</u>             | <u>350</u>              | <u>500</u>              |
| New Commitments               | \$ 1,626               | \$ 1,680                | \$ 1,850                |

*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/fy2009/pdf/cr\\_supp.pdf](http://www.whitehouse.gov/omb/budget/fy2009/pdf/cr_supp.pdf)>

*Transfer of \$5 million in 2007 is related to OPIC's Middle East Investment Initiative project in the West Bank.*

*Carry-forward amounts are related to: base appropriations resources still within the appropriated availability to obligate, and also no-year appropriations related to Assistance for New Independent States of the Former Soviet Union.*

**Table B-3 Insurance Program Activities**

| (Millions of dollars)                         | 2006<br>Actual | 2007<br>Actual | 2008<br>Projected | 2009<br>Projected |
|---|----------------|----------------|-------------------|-------------------|
| Aggregate Maximum Insured Amount              |                |                |                   |                   |
| Start of year                                 | \$ 7,495       | \$ 6,585       | \$ 6,268          | \$ 5,693          |
| Issuance during the year                      | 476            | 613            | 625               | 650               |
| Reductions/Cancellations                      | <u>(1,386)</u> | <u>(930)</u>   | <u>(1,200)</u>    | <u>(1,200)</u>    |
| Outstanding end of year                       | \$ 6,585       | \$ 6,268       | \$ 5,410          | \$ 4,860          |
| Maximum Contingent Liability                  |                |                |                   |                   |
| Statutory limitation**                        | \$ 29,000      | \$ 29,000      | \$ 29,000         | \$ 29,000         |
| End of year                                   | 3,680          | 3,391          | 3,138             | 2,819             |
| Current exposure to Claims (CEC), end of year | 2,490          | 2,410          | 2,110             | 1,895             |
| Insurance Premium Revenue                     | \$ 22          | \$ 24          | \$ 24             | \$ 25             |

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<br>Outputs & Outcomes  |                              | FY 2007  |                        | FY 2008                                | FY 2009                                |
|--|---|------------------------------|--|------------------------|--|--|
|  |   |                              | Target   | Actual                 | Target                                 | Target                                 |
| Development Effects<br><br>Development Matrix score (Unweighted Average) | Projects  | Finance Projects             | 95   | 99                     | 98                                     | 100                                    |
|  |   | Insurance Projects           | 95   | 91                     | 98                                     | 100                                    |
|  | Sub-Projects <sup>6</sup>   | Investment Fund Sub-Projects | n/a  | 71                     | n/a                                    | 100                                    |
|  |   | Finance Sub-Projects         | n/a  | 77                     | n/a                                    | 100                                    |
|  | Average Projects & Sub-Projects   |                              | n/a  | 87                     | n/a                                    | 100                                    |
| Efficiency   | SBC Cycle Time  | Insurance                    | 70   | 57                     | 70                                     | 70                                     |
|  |   | Finance                      | 75   | 55                     | 70                                     | 70                                     |
|  | Operate in a businesslike manner.<br>Improvement Action:<br>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<br>Phase II AIM            |
| Risk Mitigation and Corporate Citizenship                                | Maintain or improve monitoring tempo of existing deals for issues which would affect OPIC's development mission and risk of repayment. Mitigate risk through sound portfolio management, project development practices, and incentives to encourage good corporate citizenship. |                              | Ensure self-monitoring on all active projects.<br><br>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%   | 89%                    | 100%                                   | 100%                                   |
| Additionality  | Ensure additionality and private sector participation to ensure that OPIC leverages, but does not compete with, the private sector.   |                              | Refine Framework for financial transactions.   |                        |  |  |
| Policy priority sectors  | (See FY 2009 Budget narrative)  |                              | West-Bank Gaza   |                        | Housing<br>Cen America<br>Microfinance | Renewable Energy<br><br>Trade Capacity |
| Small Business   | 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>6</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 40 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 39 is *Minimally Developmental*, 40 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 40, 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 2007 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 displays 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 search bar and a 'Show Me Programs' button are visible. The main content area is titled 'PROGRAM ASSESSMENT' and features a large blue star graphic on the left. The star has four sections: 'PROGRAM' (View Assessment Details), 'RATING' (What This Rating Means), 'IMPROVEMENT PLAN' (About Improvement Plans), and 'LEARN MORE'. The assessment is for the 'Overseas Private Investment Corporation - Insurance' program. It states the program is 'PERFORMING' with a 'Moderately Effective' rating. 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 with strong goals, it has instituted a requirement for project sponsors to seek insurance from at least two private insurance companies, and it has improved interagency coordination and transparency. A list of actions to improve performance includes improving coordination, monitoring the policy's effectiveness, and trying resource allocation. A 'LEARN MORE' section provides links to view similar programs, view all federal programs, and learn more about the insurance program. At the bottom, a footer contains the text 'The content on ExpectMore.gov is developed by the U.S. Office of Management and Budget and Federal agencies.' and navigation 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 displays the ExpectMore.gov website interface for the 'Overseas Private Investment Corporation - Finance' program. The layout is identical to the insurance program page, featuring the same navigation, search bar, and star graphic. The assessment 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. Key findings include that the program has developed strong long-term goals, but that in the past, the Finance deal-originating departments have not been sufficiently independent from the Corporation's credit review process. Actions to improve performance include improving coordination, ensuring the independence of the Credit Committee, improving public disclosure, and reviewing developmental standards. The 'LEARN MORE' section and footer are also present, providing links to similar programs, all federal programs, and more information about the finance program.