

BUDGET REQUEST
FISCAL YEAR 2008



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Overseas Private Investment Corporation
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**BUDGET REQUEST OF THE
OVERSEAS PRIVATE INVESTMENT CORPORATION
FISCAL YEAR 2008**

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EXECUTIVE SUMMARY

The mission of the Overseas Private Investment Corporation (OPIC) is to help mobilize and facilitate U.S. private capital investment in developing and emerging market countries. It has sought to do so in a manner that maximizes the developmental impact on the host countries and furthers U.S. foreign policy objectives. That has been OPIC's mission for the full 35 years of its existence and it does so on a self-sustaining basis.

Seldom has OPIC's role as the principal U.S. Government agency responsible for stimulating private capital investment been as critical to advancing U.S. foreign policy as it is today. Whether it is the war on terror or the fight for freedom and democracy, economic hope and opportunity are essential elements of any successful foreign policy. Hope and a sustaining belief in the future can thrive in societies which cultivate the underlying predicates for individual opportunity: jobs which enable families to put food on the table; access to credit which provides the means to start or to expand a small business; and long term credit which makes home ownership affordable and attainable. Nurturing and sustaining these universal aspirations through the successful investment of private capital supported with appropriate risk mitigants is the ultimate business of OPIC.

OPIC's unique value comes from its ability to mobilize private investment in challenging economic and political environments. These include nations ravaged by war or insurrection and countries where conflict has recently ended. OPIC is also able to help jump-start investment in countries that have made new commitments to more open trade or to basic principles of transparency and good governance. That is why OPIC is committed to work closely with its sister agencies, including the U.S Trade Representative (USTR) on trade capacity building, the Department of State on post-conflict reconstruction, and the Millennium Challenge Corporation (MCC) on helping connect grant assistance to private investment. It is also why the principal geographic areas of focus for OPIC are Central America / Mexico, the broader Middle East/North Africa, and Sub Saharan Africa.

As in previous years, OPIC's FY 2008 budget request will be completely funded from its own revenues. To help OPIC support additional private investment in both priority areas and high risk areas that can consume a disproportionate share of OPIC's credit subsidy, this budget requests a \$9 million increase in OPIC's credit subsidy.

In terms of administrative expenses, OPIC's budget has been essentially flat-lined for four years while OPIC's needs are greater than ever as a result of its focus on small and medium-sized business. OPIC has been successful in increasing the percentage of smaller projects, but its administrative cost per dollar of investment has increased. OPIC has stretched its current resources through cost controls, improved administrative efficiency, and in part by leaving positions vacant and postponing necessary and recurring software investments. This budget requests an increase in the administrative budget to support continued efforts on innovative and effective Small and Medium Size Enterprise projects, and policy priority lending, both of which are significantly more labor intensive. The request also supports our continuing efforts to modernize and consolidate our technology.

The President's Budget therefore requests the following resources, funded out of OPIC revenues:

- \$47.5 million for administrative expenses to administer OPIC programs;
- \$29.0 million for credit subsidy, and continued transfer authority of \$20 million from bilateral assistance accounts for priority projects

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 and the foundation of any market-based economy. 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.

OPIC has a solid, 35-year track record of supporting U.S. private investment in the developing world through political risk insurance and investment financing. This support was provided at no net cost to the taxpayer, as OPIC generally 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 the judicious use of the leverage OPIC can exert as an arm of the U.S. government. The proof of this can be seen in OPIC's accumulated reserves in excess of \$5 billion.

In recent years, OPIC has redoubled its efforts to ensure that its investment projects have a significant developmental benefit in host countries and that insurance and financing services do not displace the private market. OPIC concentrates on highly developmental projects and projects in challenging economic environments. These projects are not pursued by the private sector because of the higher risks involved. OPIC support can make such projects commercially viable by reducing political risk through insurance or by reducing the commercial risk through guarantees. In short, OPIC support is both highly developmental and additional.

Over the past year, OPIC has taken steps to serve investors more effectively, to become more accountable to its stakeholders inside and outside the government, and to collaborate more actively with other departments and agencies of the U.S. government. OPIC will:

- Serve customers better by enhancing the value of the information it makes available; by streamlining the application process; by developing more market-relevant products; and by improving the overall experience of working with OPIC. OPIC recently surveyed the investors it supports to determine how it can better meet their needs and will use the results to further improve the customer experience.
- Become more accountable by strengthening internal controls; by improving the documentation of its internal decisions; and by making more information about its projects available to the public. OPIC intends to be at the cutting edge of best practices adopted by independent agencies of the U.S. government, exceeding requirements under applicable law.

- Reach out to other agencies to identify opportunities for collaborative approaches to new economic development or foreign policy initiatives and by giving other government agencies more information about OPIC's policies and activities.

OPIC is ready to support highly developmental investment projects in any OPIC-eligible country. At the same time, OPIC proactively seeks out projects in high priority areas and countries that are important from a U.S. foreign policy perspective or where OPIC support can make a real difference.

OPIC's regional priorities are Central America, Mexico, the broader Middle East/North Africa, and Sub Saharan Africa. Its focus on Central America and Mexico is driven by a desire to demonstrate that a policy choice to pursue closer economic ties with the U.S. will yield economic benefits. And, OPIC's focus on the Middle East/North Africa is driven by a belief that an improvement in economic conditions in the region is a requirement for greater peace and stability. Sub Saharan Africa remains a priority given the critical need to help Africa break the cycle of poverty and lack of economic progress.

OPIC has identified three sectors where OPIC can make a real difference: housing, microfinance and access to credit by grass roots entrepreneurs as well as small and medium enterprises. Housing meets a fundamental human need and supports a variety of jobs. 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. This supports grass roots capitalism by increasing the supply of loan capital that can be made available to new entrepreneurs and small business enterprises. Together, investment in housing, microfinance, and lending to small business enterprises can make a real difference in the lives of the people at the lower end of the income scale. In order to create broad political acceptance of market-oriented policies, it is vital that the poorest populations realize the benefits of economic growth. Helping small enterprises in developing countries to get off the ground is the bedrock of OPIC's approach.

In the past OPIC typically supported large U.S. multinational enterprises that invested in large projects overseas. In recent years, however, OPIC has made a determined effort to support small U.S. enterprises interested in investing abroad. Small enterprises have been the major engine of economic growth in the United States. The U.S. economy has remained vibrant in those sectors where small enterprises could grow and challenge larger incumbents for market share. By helping small enterprises invest in developing countries, OPIC can benefit both the U.S. economy and the economies of the host countries. The U.S. economy will benefit because small enterprises have to become engaged in the global market to remain competitive. The host country economy will benefit because small enterprises are likely to become an important driving force in these economies, and U.S. small enterprises are likely to provide the most effective peer transfer of managerial know-how, entrepreneurial spirit and business practices.

Looking ahead, OPIC sees continuing opportunities in proactively supporting U.S. foreign policy priorities in three situations:

- Complementing initiatives by sister agencies that provide grant assistance. For example, OPIC can serve as a bridge from grant assistance to privately funded investments in countries supported by the Millennium Challenge Corporation (MCC). MCC expects its grant funding to lead to sustainable economic growth led by the private sector and OPIC can serve as a bridge to private sector growth. OPIC can also help more advanced countries like Mexico graduate from grant assistance to foreign investment. As a result of its skills, structure, and mission, OPIC is well placed to work with the private sector in developing and implementing projects.

- Supporting capacity building in countries that have chosen to pursue a close economic relationship with the United States. Trade and private investment have proven to be the most powerful stimulant of economic growth, and OPIC-supported projects can strengthen the economic foundation of these countries.

- Kick starting private foreign investment in post-conflict situations, where the government has adopted all the right policies when foreign private investors remain reluctant to initiate projects in light of the economic and political uncertainties that remain. In such situations it makes sense to make maximum use of the private sector, since private entrepreneurship can free government resources to focus on establishing a stable and secure economic and political environment.

OPIC 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. OPIC also recently completed the development of a new model to measure the development contribution of financial intermediaries. Using these tools, OPIC holds individual loan officers and underwriters, each department, and the organization as a whole accountable for the developmental impact of OPIC-supported projects. OPIC assesses the anticipated development impact of projects ex ante as they go through the approval process. Over the past year, OPIC has also begun to assess the actual development benefits generated ex post by projects that have become fully operational.

OPIC has also developed a rigorous analytical tool for objectively measuring the additionality of projects, and is applying the new analysis to all projects initiated since the beginning of FY 2007. The analysis covers both country-specific factors and project specific factors that are likely to influence investment decisions by the private sector.

OPIC has substantially reinvented itself over the past few years, contending with a variety of cost increases in the context of an essentially constant budget. OPIC's administrative costs have increased for two principal reasons. The first is that it often costs as much, and sometimes more, in absolute terms to process a \$2 million loan than a \$200 million loan. OPIC has attempted to control these costs and improve administrative efficiency. Administrative cost increases have also been absorbed by not filling vacant

positions and postponing necessary and recurring software investments. To date, OPIC believes it has reduced its administrative expenses without an appreciable increase in operating risk. Continuing this pattern, however, will increase OPIC's risk exposure. Without access to additional resources, OPIC will find it progressively more difficult to meet the high management standards and mission objectives set by the President, Congress, and our stakeholders.

OPIC has also found it increasingly difficult to respond effectively to foreign policy priorities as a result of the limited budget allocations for credit subsidy. Investments in post-conflict situations are exposed to significantly higher economic as well as political risks, which may require appropriated credit subsidy. Many OPIC projects generate negative subsidy receipts, reflecting expected net gains, and OPIC's overall operations generate net surpluses on a regular basis. However, OPIC cannot offset a potential loss on some projects with gains on others under the Credit Reform Act. Presently, a single project in a post conflict country could consume OPIC's annual appropriated subsidy of around \$20 million.

The FY 2008 budget includes a request for \$20 million in subsidy transfer authority similar to current authority. While this authority is helpful, as a practical matter transfer authority is sometimes difficult to implement operationally because the decision-making processes in OPIC and the Department of State are difficult to synchronize. OPIC is therefore requesting an appropriation of \$29 million for credit subsidy. The increase would be used to support projects in countries with a high foreign policy priority.

FY 2008 REQUEST

OPIC requests the following FY 2008 appropriations from its balances:

- \$47.5 million to support program administration
- \$29.0 million in credit subsidy funding

Administrative Expenses

OPIC requests an FY 2008 appropriation of \$47.5 million for administrative expenses. Of this increase \$2 million is for capital investments in information technology to address postponed technology infrastructure projects, and human resource development.

In order to prudently manage a growing portfolio of transactions, OPIC must address a series of postponed information technology and human resource development projects that were delayed during the past three years. The budget environment forced OPIC to postpone critical upgrades to software systems and to scale back training. The combination of insufficient investment in information technology and in human resources has resulted in a hollowing out of OPIC's capabilities just as the number of portfolio transactions are increasing. It is anticipated that OPIC's negative budget authority generated during FY 2008 will more than offset this request. See Table B-1 for a historical presentation of OPIC's administrative budget.

Technology

While it is early to identify specific technology projects that will be funded in FY 2008, some of the requested increase will support goals such as:

- Strengthening internal controls and efficiency by replacing OPIC's procurement processing system, upgrading ORACLE, and integrating workflows into AIM.
- Improving subsidy estimates by deploying a rating system that will strengthen the modeling of risk default through the analysis of financial statements.
- Meeting continuity of operations (COOP) requirements by developing a disaster recovery capability to protect core OPIC operations.
- Improving decisions and analysis through the development of reporting tools that will integrate the balkanized T24, ORACLE, and APPX databases.
- Strengthening our development impact by building a capacity to support foreign currency transactions, which are important to lending for housing and microfinance.

OPIC's budget request includes \$2 million that would be allocated for follow-on work on OPIC's long run Application Integration and Migration (AIM) software development project, as well as several other smaller information technology projects.

Within the AIM effort, a key priority is the replacement of the patchwork, stand-alone systems supporting the insurance program that do not adequately support workflow, track documents, or analyze outstanding insurance contracts. Like the current work on the conversion of the application software supporting the finance programs, the AIM Insurance effort will enable a much closer integration into OPIC's financial, risk, and reporting systems. There are also several other integration efforts related to the finance phase of AIM that will continue throughout FY 2007 and FY 2008.

OPIC also has a range of smaller scale technology projects that are necessary to preserve existing capabilities and to integrate systems. These projects have been postponed in recent years because the resources and budget OPIC allocated to develop AIM crowded out these smaller, but still urgent, technology projects.

Human Resources

The balance of the requested increase will support investment in OPIC's human resources. A measured increase from OPIC's current staffing level is necessary to keep pace with existing and future portfolio growth, and to support the continuing focus on small business. Each transaction requires effort and oversight, regardless of the dollar size of the transaction. In effect a growing pool of projects is stressing a static staffing level.

This budget would allow OPIC to:

- Protect and responsibly manage the financial risks of the portfolio;
- Deliver more transparency to the interagency community and the public;
- Focus origination in policy priority countries and sectors;
- Achieve measurable breakthroughs in housing, micro finance and access to credit by small and medium enterprises; and
- Support for U.S. small and medium enterprises interested in investing abroad, in particular, enterprises owned by women and minorities.

OPIC is developing a workforce strategy to diversify its skills base and to strengthen the agency's capacity to address new challenges in capital markets development, small business lending and investment support for countries in crisis that merit a high foreign policy priority. OPIC is consistently evaluating proposals for staff and projects within a rigorous analytical framework that contemplates the agency's core budget. Using this framework, OPIC subjects proposals to a structured side-by-side analysis with other proposals. The end goal of this process is to focus proposals for additions to staff on the best balance of needed skills and additional value to the agency's mission.

Credit Funding Request

OPIC's FY 2008 Credit Reform budget request is for a funding level of \$29 million with three-year availability to meet both normal requirements for credit subsidy, and to give OPIC greater flexibility to address foreign policy priorities.

OPIC is also requesting continuation of transfer authority enacted in FY 2006, but is requesting an amount of \$20 million in FY 2008 versus the \$30 million in FY 2006. This authority is an important tool despite the natural timing differences between the State Department programming process and lead times needed for OPIC projects. This flexibility is important to OPIC's ability to play a more meaningful role in supporting U.S. foreign policy.

OPIC forecasts that the requested budget can support \$1.45 billion dollars in direct and guaranteed loans. The precise program level is difficult to project because credit subsidy costs are established on a case-by-case basis.

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, the "Development Matrix," for measuring the developmental benefits of individual OPIC supported projects. The 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 management in its consideration of a project, and it calculates an actual (*ex post*) development score when a project that has been implemented is monitored and evaluated.

On the basis of the metric established by OPIC, a score between 40 and 100 is considered developmental and a score above 100 is considered highly developmental. OPIC evaluates its overall performance and the performance of the individual line department on the basis of the average weighted and un-weighted development scores of all projects. In FY 2006, OPIC supported \$1.3 billion in U.S. investment with an administrative budget of \$42 million. In other words, OPIC's administrative "overhead" was 3.3% for the period.

Table 1 below summarizes the anticipated developmental impact scores for projects approved during FY 2005 and 2006, as well as the targets set by OPIC for projects approved from FY 2006 to 2008.

Table 1 Development Scores

	2005	2006		2007	2008
	<u>Actual</u>	<u>Target</u>	<u>Actual</u>	<u>Target</u>	<u>Target</u>
Number of Projects	102	NA	70	NA	NA
Un-weighted Average	93.6	95	97	95	98
Weighted by Dollar Investment	91.4	95	94	95	98

OPIC conducted a comprehensive review of all projects that were approved by OPIC since FY 2002 and have become operational. The review included an examination of actual, *ex post*, development scores. A comparison of average *ex ante* and *ex post* scores shows that the actual economic development impact generally tracks the anticipated impact. OPIC intends to institutionalize its review of past projects. In future years OPIC will be in a position to report on actual economic development scores across a representative number of projects, and to make a more meaningful comparison between *ex ante* and *ex post* scores.

In total, the review covered 118 projects approved during the 2002-2004 period that were in operation long enough to yield meaningful data on their initial development impact. All operational projects are monitored through an annual report the project company is required to submit. Roughly one-fourth of all such projects are monitored through on site visits. Each of the projects covered by the review for which adequate data was available was given a quantitative development score, applying the data obtained through the monitoring process to the Development Matrix. A majority of the monitored projects covered by the review had been approved before OPIC started to apply the development matrix to measure the anticipated development benefit of projects pending approval. Nevertheless, the scores for the projects covered by the review generally tracked the anticipated development benefits of the projects approved during FY 2004, the year the development matrix was first implemented.

In addition to the calculation of an overall score for the actual development benefits generated by projects, the review evaluated each monitored project on the basis of the individual development factors covered by the matrix. The evaluation included the amount of capital mobilized, taxes paid to the host country, number of direct jobs created, local procurement generated, and the total volume of sales. Some of the qualitative development benefits generated by include the following:

- *Employee Benefits* - (i) health and social insurance, pension and maternity leave; (ii) allowances for meals, transportation, housing and childcare; (iii) equal-employment and no-harassment policies; (iv) training in English and technical knowledge; (v) high wages in comparison to local averages. Many, if not most, of these benefits are unusual in poorer countries.

- *Community Benefits* - (i) investment in low-income and rural areas; (ii) financing for construction of schools and medical clinics; (iii) provision of textbooks for local schools; (iv) programs for orphanage assistance; (v) introduction of telecommunications in rural villages; (vi) funding for recreational facilities.
- *National Benefits* - (i) privatization of public assets; (ii) introduction of new technologies; (iii) improvement of energy infrastructure; (iv) introduction of new management and marketing techniques; (v) acceleration of institutional and personal capital formation.

In order to achieve a better alignment between corporate and individual goals and to communicate the importance management assigns to the new emphasis on the developmental quality of projects, OPIC added a developmental quality element to personal performance plans. OPIC staff members who work on individual projects have their performance evaluated in part on the basis of the developmental benefits of those projects.

Serving the Investor Efficiently

OPIC management has made efficient service to the investors it serves as one of its key priorities. By meeting the needs of investors, OPIC can better achieve its mission of supporting private investment with a high developmental payoff.

Accordingly, OPIC has initiated or implemented a number of reforms that address concerns investors have articulated in the past. The first of these is an overhaul of its public website to make it more efficient, user-friendly, and accessible. The second of these reforms is the development of a streamlined, on-line application process that will reduce the administrative burden of applying for OPIC assistance.

OPIC is also seeking to develop new products that help satisfy the needs of private investors that are not currently met by the private market. OPIC has traditionally played a pioneering role in both political risk insurance and development finance, with the private market following OPIC's lead in new products or new markets.

To pinpoint further reforms and initiatives that would enable OPIC to meet the needs of the private investors it serves more effectively, OPIC carried out a comprehensive customer survey in FY 2006. The survey indicated that investors that have done business with OPIC are satisfied with the overall experience and their interaction with OPIC; that they hold OPIC employees in high regard; and that they place a high value on OPIC products and services.

At the same time they identified a number of areas where they thought OPIC could make some improvements. They would like OPIC to better explain its policy requirements and

how it prices transactions. They would also like to see a shorter approval cycle time and find a way to reduce the cost of outside counsel.

OPIC management will address these issues in the year ahead, although OPIC's legal requirements that arise from its statute make it difficult for OPIC to respond as quickly as a private financial institution or to reduce outside legal costs.

Internal Controls and Continuity of Operations

At the recommendation of its outside auditors, OPIC has decided to strengthen its internal controls and to ensure systematic documentation of the decision-making process. To this end, OPIC has established an Audit Committee of the Board of Directors and a Senior Management Council (SMC) consisting of the Chief Financial Officer (CFO) and all Vice Presidents.

The Audit Committee of the Board of Directors has drafted a charter and defined its role in the development and certification of OPIC's financial accounts, and is currently in the process of developing an audit plan. OPIC's bylaws have been amended accordingly. The Senior Management Council will establish policies for an internal working group: the Senior Assessment Team (SAT). The SAT will implement OPIC's internal control assessment process. The SAT is responsible for identifying and reporting on deficiencies in internal controls resulting from OPIC's overall internal control assessment process, which includes the three objectives of an internal control framework: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

OPIC is also in the process of establishing a plan for Continuity of Operations (COOP) to better prepare the agency for a natural disaster or terrorism incident. COOP planning facilitates the resumption of OPIC's minimum essential functions during any emergency or situation that could disrupt normal operations. OPIC is completing a plan for protecting the physical health and safety of OPIC employees during an emergency and, in FY 2007, OPIC will have renewed plans for resuming mission essential functions in the event of a disruption.

Regional Foreign Policy Priorities

Central America/Mexico, Broader Middle East & Sub Saharan Africa

OPIC's economic development mission is guided by the overall foreign policy objective of the United States of making the world more peaceful and stable through economic progress. Within that overall objective, OPIC has identified three regions of the world where its programs could make a difference in support of U.S. foreign policy objectives - Central America/Mexico, the broader Middle East and Sub Saharan Africa. While OPIC is ready to assist private U.S. investors with commercially sound, highly developmental projects in any OPIC eligible country, OPIC is playing a proactive role in attracting U.S. private investors to these priority regions.

OPIC supported private investment in priority regions advance U.S. foreign policy objectives in the following ways:

- In Mexico and in Central America, strategically positioned U.S. private investments that make a difference in the lives of average citizens can help to demonstrate that a closer economic relationship with the United States has real economic value. OPIC thus can help to bolster political support for governments that favor a good relationship with the United States, and can help build a breakwater against potentially destabilizing influences.
- In the broader Middle East, OPIC supported private investments can demonstrate the potential economic benefits of a reduction in conflict, increasing openness, and the pursuit of market-oriented economic policies.
- In Sub Saharan Africa, OPIC supported U.S. private investment plants the seeds of economic progress that can put Africa on the path towards greater economic and political stability.

Sectoral Priorities – Housing, Microfinance and Loans to Small Business

OPIC is prepared to support projects in any sector, provided that they meet all statutory criteria, including not having adverse economic effects in the United States. OPIC has identified three sectors as priority sectors where it can play an important leadership role in attracting private investment – housing; access to credit in the form of microfinance; and loans to small and medium enterprises. OPIC believes that its support for U.S. private investment in these areas can have a proportionally large economic development impact in stimulating economic activity and entrepreneurship at the grass roots level.

Mortgage-financed owner occupied housing not only offers shelter and labor intensive jobs, but it also creates a platform for saving that can provide the means to start a business. The establishment of microfinance or small business finance facilities is the functional complement to the formation of housing capital by providing the institutional capacity to finance a small, start-up business, or to finance the expansion of small and medium enterprises. OPIC can dramatically improve the lives of the poor, bringing the power of global capital markets to housing and microfinance.

OPIC Support for Housing

During the past three years OPIC has built an African housing portfolio of \$387 million and a total housing portfolio of just under \$900 million. As a result of past outreach efforts in Africa, including a very successful investor housing conference in South Africa, OPIC has a substantial pipeline of projects and prospective investor relationships that should lead to a substantial number of new projects in 2007. Countries represented are Senegal, South Africa, Nigeria, Ghana, Kenya, Zambia, Uganda and Tanzania. Four signature projects in Africa include:

- *Jopa Villas* - a middle-income construction and lease purchase project that will develop 345 houses in Nairobi.
- *Houses for Africa* - a mortgage program that will enable the construction and development of 5,000 low income houses in Lusaka, Zambia.
- *Ghana Home Loans* - a start-up mortgage company in Accra, that will provide \$30,000,000 in mortgages to low and middle income families.

OPIC is also completing a feasibility study for the creation of a mortgage insurance entity in Kenya, which could become a ‘demonstration’ project for other countries in Africa. While continuing to drive the Africa initiative forward, OPIC also launched new initiatives in Mexico, Central America, Iraq and North Africa/Middle East. Extensive outreach in Mexico has resulted in two new housing projects totaling \$40 million and three pending applications that will generate up to \$400 million in mortgage financing. The emphasis will be in supporting the enhancement of the secondary market for mortgages and low-income worker housing adjacent to employment opportunities in resort communities.

In July 2006, as a follow up to the President & CEO's visit in May 2006, OPIC sent a technical team to meet with public and private sector representatives in Honduras, El Salvador, Nicaragua and Guatemala. The goal of the team was to identify ways in which OPIC, working with its investor base, could help to accelerate the development of affordable housing in Central American countries. The pipeline for Central America is expected to grow significantly and will be reflected in the fiscal year 2007 portfolio numbers.

The Investment Funds Department has completed a call for an investment fund in the housing sector which resulted in two management groups being selected. Details are provided in the program summary part of this budget message.

OPIC Support for Microfinance

Microfinance institutions (“MFIs”) provide credit to the working poor. By offering financial services to entrepreneurs without access to credit, MFIs enable them to expand their businesses, generate employment, build savings, and 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 reach the formal economy.

OPIC has underwritten sixteen microfinance projects totaling \$169 million. Examples of some innovative OPIC microfinance transactions include:

- \$30 million in loans from OPIC and Citibank enabling the ProCredit group to expand microfinance lending in 19 countries.
- \$1 million emergency liquidity facility sponsored by Accion International to make medium-term loans available to micro finance institutions in the event of a bank liquidity crisis or a natural disaster.
- \$48 million OPIC loan to Blue Orchard Microfinance Securities I supporting the first securitization of loans to microfinance institutions. The project resulted in \$81 million in new loans to 14 microfinance institutions in Latin America, Europe and Asia.
- \$18 million OPIC loan to Microfinance Securities in a second project supporting the securitization of loans to microfinance institutions.

OPIC intends to continue its effort to support microfinance and is working on new and innovative product structures to address microfinance needs in global emerging markets. These include:

- Participating in transactions that provide a strong demonstration effect for capital market investors
- Taking different tranches of risk to encourage capital flows from the private sector
- Partnering with financial institutions who can lend in local currency
- Reducing country risk in transactions where private capital is cautious
- Supporting efficient capital flows through securitizations

Channeling U.S. Private Sector Capital to Financial Institutions that Lend to Local Small and Medium Enterprises (SME's) in Developing Countries

Beyond Microfinance, most of the poorest countries lack financial institutions that are prepared to take the risk of lending to small and medium sized enterprises without extensive collateral. Part of OPIC's strategy to support grass roots capitalism in these countries is to support projects that will funnel U.S. private sector capital to financial intermediaries that will extend loans to SME's on reasonable terms.

One approach OPIC has taken is to create incentives for U.S. financial intermediaries to allocate a portion of any loans guaranteed by OPIC to small and medium sized enterprises. 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 SME's. 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.

Another approach OPIC has taken is to work with U.S. sponsors of special purpose lending facilities in particular countries. One example is the Trade Bank of Iraq project,

under which 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.

Another example is provided by the West Bank/Gaza Finance Facility, which is under development. This facility, which will be jointly supported by OPIC and the Aspen Institute, will funnel capital to private financial institutions in the West Bank and Gaza, who in turn will provide loans to downstream borrowers with terms of ten to twenty years. The bulk of these loans are expected to go to SME's. OPIC is currently working on a similar facility for Lebanon, which would help small businesses in that war torn country to rebuild.

OPIC Focus on U.S. Small Business Investors

OPIC continues to place a special emphasis on helping small enterprises to become investors in the developing world. In FY 2006, OPIC supported 61 new projects involving small enterprises, which accounted for 87% of the 70 projects OPIC approved that year.

In OPIC's portfolio of active projects, there are 9 small businesses that are self-identified as being owned by women or minorities. To increase that number further, OPIC appointed an Outreach Coordinator for Minority-and-Women-Owned Businesses, who organized an active program of workshops and speakers to reach out to women and minority entrepreneurs around the country.

Over the past year OPIC has also made a concerted effort to improve the quality of small business projects and to lay the foundation for leveraging OPIC's resources more effectively in the small business area. In pursuit of both objectives, OPIC has developed a network of intermediaries experienced in evaluating and assisting small business projects. When it is fully operational, the Enterprise Development Network (EDN) will include:

- EDN originators, made up of business consultants and not-for-profit organizations worldwide, who will be trained by OPIC to advise small business clients in drafting business plans and completing application material that meet OPIC's standards and policy conditions for both OPIC Finance and Insurance programs.
- EDN designated lenders who will use their own underwriting skills and SME client outreach to finance small business loans alongside a partial OPIC guarantee.

EDN should lead to a substantial increase in the number of viable small business projects in future years.

Leveraging U.S. Government Resources

OPIC recognizes that it can achieve more 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 US Agency for International Development, the Department of Treasury, the Department of State, or the Trade and Development Agency can set the stage for OPIC supported private investments. For example, grant-funded technical assistance for the reform of laws underpinning property titles, title insurance, and consumer mortgages can pave the way for OPIC supported private investment in housing, title insurance and mortgages. OPIC support for private investment in highly developmental projects can be enhanced by coordinating with the Department of Commerce through its Foreign Commercial Service. Similarly, trade agreements negotiated by the U.S. Trade Representative can remove obstacles to such investments. Trade agreements signal to investors that a market is now “open for business.” OPIC has therefore 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 support of investments in Mexico are the most effective means available to enable a transition to a principal reliance on foreign private investment as the means for obtaining external support for their economic growth. OPIC has begun a dialogue with MCC on how the two agencies could work together in the future to provide for the graduation of MCC countries from government-financed development assistance grants to government-enhanced private investment.

PROGRAM SUMMARY

Insurance

OPIC Insurance facilitates U.S. private investment overseas by helping to mitigate the political risks of doing business in emerging markets and developing economies. OPIC provides political risk insurance covering inconvertibility, expropriation and political violence for a range of U.S. investors, both large and small.

Increasingly, Insurance has 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. Insurance provides a streamlined application and underwriting process for companies that qualify for OPIC's Small Business Center. In addition, Insurance has developed an insurance wrap that is an add-on to OPIC's loan agreement for small business investors. In order to support OPIC's developmental mandate and foreign policy goals in FY 2007 and FY 2008, Insurance is targeting its outreach to small businesses that are in priority regions and sectors that are most likely to yield high developmental results.

Insurance continues to support the U.S. private political risk insurance industry by encouraging all clients to seek coverage in the private market before coming to OPIC. OPIC has worked on many joint transactions with the private market, either by providing additional risk capacity or by bringing private insurers into transactions that they would not have accepted without OPIC's participation. Through co-insurance and reinsurance, OPIC has become a major partner for the U.S. private market and has helped to provide more options and capacity for U.S. investors.

Political risk insurance supports U.S. foreign policy by encouraging U.S. private investors to invest in countries in post-conflict situations such as Afghanistan or Lebanon. Private investment is likely to be the most effective means of achieving sustainable economic growth in countries that have adopted the right policies. Yet, the U.S. private sector is unlikely to pursue investment opportunities in such countries in the immediate aftermath of conflict without the insurance OPIC can provide to cover the political risks of doing business in such countries.

OPIC Insurance continues to seek out new products. OPIC has traditionally played an important role as an innovator, taking the lead where it can play a role in shaping both the policy framework and in developing an insurance product that meets the needs of the commercial market place in a particular area of political risk. 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. Responding to market needs, OPIC has also adapted its non-payment of arbitral award coverage for contractor and exporter transactions. Other opportunities OPIC is exploring include coverage for parastatals and

lenders' coverage that is compliant with the new Basel II banking regulations. The Insurance Department's strategy in FY 2007 and FY 2008 will be to align product development efforts with OPIC's strategic priorities and business development and outreach efforts.

The following recent projects demonstrate how Insurance has supported OPIC's strategic priorities, OPIC's developmental mandate, and the important partnerships that have been established with the private insurance market:

- *International Rescue Committee* – Insurance currently provides coverage to the International Rescue Committee, one of the world's largest nonprofit humanitarian 501(c)(3) organizations, for its operations in 21 countries, most of which are found in Africa. OPIC has insured over \$18 million worth of property and equipment to IRC's offices in Afghanistan, Azerbaijan, Bosnia-Herzegovina, Burundi, Chad, Republic of Congo, Democratic Republic of Congo, Eritrea, Ethiopia, Guinea, Indonesia, Jordan, Kenya, Nepal, Pakistan, Russia, Rwanda, Sierra Leone, Tanzania, Thailand and Uganda. The insured assets include property and equipment necessary to carry out humanitarian, disaster and medical assistance, refugee resettlement, and retraining programs.
- *Enterprise Homes, LLC* – OPIC provided \$12.4 million in coverage to Enterprise Homes, LLC for the construction of multiple green field residential housing developments near major cities throughout Tanzania. Each residential neighborhood will consist of a cluster of single-family homes, located on a land plot situated within 30 km of the central business district. The development of each land plot will include the installation of required infrastructure, including roads and utilities.
- *American School in Abuja (AISA)* – OPIC provided insurance support to the American International School of Abuja for the construction and operation of a new campus with 25 classrooms, ten residential two-bedroom dormitories, eight offices, a library, two science labs and other essential facilities. This project supported Sub-Saharan Africa, in particular Nigeria, which is an important foreign policy priority for the U.S. government. In fact, the Department of State has requested OPIC continue to provide insurance for overseas schools such as AISA.
- *Phelps Dodge Peru* – OPIC provided insurance to Phelps Dodge, the second largest copper producer in the world, for its equity investment at the Cerro Verde/Santa Rosa copper mine in southern Peru. OPIC co-insured this project with private market insurers, including Zurich Emerging Market Solutions, Axis, AIG, and several Lloyd's syndicates. Private political risk insurers did not have enough long-term capacity to meet Phelps Dodge's insurance needs so OPIC's participation filled a market gap and provided additional security to the private market insurers to allow them to offer their maximum tenors.

Small and Medium Enterprise Finance

While continuing its focused efforts to efficiently serve U.S. Small and Medium Enterprises (SMEs), OPIC has endeavored to strengthen the quality of the small business projects it supports, while providing enhanced deal-structuring advice and timely loan product delivery to its customers. Critical in this has been the successful realignment of OPIC's handling of incoming proposals. Accelerating proposal screening helps project sponsors progress through a rapid analysis of how OPIC can play a role or can direct them to alternative resources.

At the same time, OPIC has been exploring ways to leverage private sector interests, technologies and capital to more effectively provide financing to U.S. small and medium size businesses. The effort resulted in the establishment of a program called the Enterprise Development Network (EDN). The structure of the EDN program is two-fold, including Designated Lenders (where credit underwriting authority is selectively delegated) and a network of OPIC-approved private sector Loan Originators to advise SMEs in documenting and arranging international projects for submission to a Designated Lender.

Loan Originators and Designated Lenders will add a number of efficiencies to OPIC support of small business investors. These financial intermediaries will be established across the United States, greatly expanding OPIC's ability to reach out to small businesses directly involved in international trade and investment. These intermediaries will also provide an efficient means of supporting businesses that are interested in and capable of, pursuing developmental investments in OPIC-eligible countries. Currently, OPIC staff spend a great deal of time with clients who ultimately are unwilling or unable to pursue investments that meet OPIC's criteria. Those firms generally require extensive counseling and can consume a large portion of OPIC's limited staff resources. Loan Originators and Designated lenders are set up both to identify and to provide advice to SMEs that are ready to make the step to overseas investment thereby enhancing OPIC's efficiency in program delivery.

Currently, OPIC is working with its first U.S. Designated Lender for up to \$100 million in loans to U.S. SMEs in which the lender takes a 30% risk share. SMEF is considering one or two more Designated Lenders in FY 2008. SMEF is also working to involve a group of about ten Loan Originators with whom OPIC has already begun discussions. These originators are located throughout the United States and have experience or knowledge with SMEs in various sectors including energy, technology, environment, and infrastructure, as well as experience in certain OPIC eligible countries.

The following projects provide an example of the types of small business projects the SME Finance Department has supported in FY2006:

- *Juice Production in Afghanistan* – A \$700,000 loan to Bagram Fruit and Non-Alcoholic Beverages Co. Ltd., owned by two U.S. citizens, to establish a grape juice production and bottling facility in Parwan Province. Bagram Fruit was established in the 1960s as a raisin production and export company but was mothballed from 1979 to 2002 due to conditions in Afghanistan. The 100% natural grape juice will be bottled and sold domestically, mainly in the Kabul market. At present, most commercial juice in Afghanistan is imported and is not 100% fruit juice.
- *Environmentally-Sustainable Organic Açai Fruit Processing Facility In Brazil's Amazon Rainforest* – A \$3.7 million loan to Açai do Amapá Agroindustrial Ltd., a subsidiary of Sambazon Inc. of San Clemente, California, for the construction of an açai berry processing facility in the city of Santana, Amapá State, Brazil. The company will sell its juice product, high in healthy antioxidants, into the internationally expanding natural/organic food market. Its products will bear USDA organic and fair trade certifications. Sambazon's main suppliers of Açai fruit have been four forest cooperatives employing more than 1,500 low-income farmers in Brazil's Para state. The new facility in Amapá state will open new opportunities to low income açai suppliers to derive higher income, while investing in a sustainable manner. Sambazon Inc. is partnering with the Brazil mission of the U.S. Agency for International Development to develop the country's açai export sector. Sambazon – which stands for Sustainable Management of the Brazilian Amazon – has a formal alliance with a Brazilian nongovernmental organization, FASE, which organizes agricultural production in indigenous communities and is coordinating relations between Sambazon and the Para state cooperatives.
- *Internet Gabon, an African Internet Service Provider* – A \$3.7 million loan to move a small, U.S. owned reseller of internet-access to a full-scale provider of internet and networking services to clients in the challenging environment of Gabon. The U.S. investor will train local Internet personnel in the maintenance and use of the company's equipment, as well as provide engineering and program management.
- *Microfinance in Central & South America* – A \$4 million loan to Microfinance International Corp. (MFIC) to make loans to small and mid-sized microfinance institutions (MFIs) in Central and South American that have limited access to financing. MFIC is a Delaware corporation based in Washington, D.C. that provides a range of financial services to relatively poor Hispanic immigrants in the U.S. without access to credit. As part of its effort to provide these services efficiently, the company has established partnerships with several MFIs in Latin America through which the MFIs serve as MFIC's agent for the processing of remittances. MFIC is one of the first companies established with an objective to link remittance flows to microfinance development. Based on an expected average MFI loan size of approximately \$800, the OPIC loan to MFIC is expected to permit an additional 5,000 loans by MFIs during the next two years.

- *Rural Electrification Services in the Philippines* – A \$2.5 million loan to the PowerSource Group LLC, a Delaware company, to serve remote island communities not serviced by the national grid. The concept is to construct Community Energizer Platforms (CEP's), which are modularized, containerized infrastructure platforms with community electrification, water purification, communications (voice and data Internet access), refrigeration/ice-making, and entertainment capabilities, supplemented by sophisticated, long-term livelihood training. Each CEP services 1,000-2,000 households with community-wide electrification adequate for enterprise development and costs approximately \$500,000.
- *Mortgage Loan Project in Ghana* – OPIC is committing to up to \$30 million for 18 years to fund Ghanaian residential mortgage loans for approximately 425 middle income families. OPIC's borrower will purchase mortgages from Ghana Home Mortgage Loans Ltd. (GHL), the originator of the mortgage loans. GHL has a long-term plan to develop new sources of funding for affordable mortgages in Ghana while providing faster, more efficient service to customers.

Structured Finance

In the past year, Structured Finance has focused on channeling U.S. private bank loans and capital market funds into regions with a high foreign policy priority and into business sectors that generate significant developmental benefits. Promoting development by strengthening the financial services industry of countries has become a principal way for economic rebuilding to take place. This is particularly true when liquidity in the global market makes capital available for large-scale power, water and transportation projects.

In order to strengthen the developmental quality of these projects, Structured Finance has developed a strategy for channeling a targeted portion of such funds into the more *highly* developmental segments of the designated markets. Another key aspect of the strategy has been to assist local enterprises in developmentally significant areas of the local economy to make the transition from foreign aid supported financing to commercial financing.

The Europlan project in Russia (summarized below) has enabled a lessor of motor vehicles and other equipment to expand its capability to small to medium sized businesses. Europlan has migrated from a dependence on development institution loans to an ability to raise funds in the private market.

To cite another example, OPIC partial guaranties on short-term credits extended to the Iraq Trade Bank enabled the Bank to demonstrate its commercial viability and reliability to the private capital market, paving the way for purely private financing of future expansions of the Bank.

In the area of housing, Structured Finance is focusing on the development of secondary markets for mortgages, which serves the dual purpose of expanding the pool of capital

available to finance housing and deepening the local capital market. This technique specifically encourages U.S. banks (via loans to their correspondent banks) not only to expand the scale of lending and to increase the tenor of loans in the housing sector, but it also channels some of the money to lower income market segments in lower and middle income countries. This will improve both the availability and the affordability of mortgage finance. Several of the new framework agreements with U.S. banks approved by OPIC over the past year established tiered targets for the allocation of loans to priority sectors, regions, and lower income segments of those markets.

In the area of microfinance, Structured Finance is focusing on tapping the capital market on a global basis to support microfinance facilities in OPIC-eligible countries. OPIC's contribution is to obtain the economies of scale achievable by raising funds in the capital market. In the Micro Finance Securities project, the borrower will raise funds through a private placement and in turn will lend funds to approximately 28 microfinance institutions worldwide. The project will allow the underlying microfinance institutions to expand their loan portfolios significantly and become more successful commercially.

The following projects provide an example of the types of projects the Structured Finance Department supported in FY 2006, and demonstrates OPIC's contribution to economic development and foreign policy:

- *Wachovia Bank Global Framework Agreement III* - Under this agreement, OPIC shares credit risk with Wachovia on up to \$250 million in bank loans to OPIC eligible countries. Wachovia will channel a majority of the loans to correspondent banks that will use the money to extend the tenor on small business loans and mortgages, to as much as 15 years in the case of mortgages. Two previous agreements with Wachovia have made the bank more comfortable with business opportunities in the emerging markets, and one of the principal aims of this agreement is to channel more of such loans to small businesses and mortgage lending which are both priority areas. There are two tranches within the facility - one earmarked for middle income mortgage lending, and the other for lower income mortgage lending. OPIC's goal is to increase mortgage funding availability and affordability in target priority countries.
- *ZAO Europlan* - Under this loan agreement, OPIC is making \$100 million available to support \$450 million in new leasing of equipment and vehicles to small and medium enterprises throughout the Russian Federation. OPIC's loan will enable Europlan to obtain up to \$50 million of purely commercial financing that is not credit-enhanced by a development institution and is intended for tenors that match the economic life of the equipment. All previous term financing obtained by Europlan was supported by a variety of development institutions, including a previous \$30 million loan from OPIC.

- *Trade Bank of Iraq (Phase I)* - OPIC has provided a guaranty of \$52.5 million to support short term letters of credit issued by the Trade Bank of Iraq (TBI). A group of private sector lenders is providing similar guaranties of up to \$17.5 million. This facility will expand the capacity of TBI to finance international trade transactions. More importantly, it will help TBI establish its credit standing with international capital markets, and eventually open the way for future financing from international banking and capital markets without OPIC support.
- *Citibank Microfinance Framework Agreement* - OPIC will guarantee up to \$70 million in aggregate loan principal plus accrued interest to support a new \$100 million Microfinance Credit Program (“MCP”) by Citibank, which will fund microfinance institutions (“MFIs”) for micro credit portfolios in OPIC eligible countries in Africa, Asia, Central Eastern Europe and Latin America. Loans to individual MFIs under the MCP will have tenors up to 5 years and will be extended in local currency or U.S. Dollars. Individual loans will be up to the equivalent of \$5 million U.S. Dollar, and the anticipated average loan size is \$2 million.

Investment Funds

OPIC’s Investment Funds Program is designed to mobilize private sector capital and management skills to facilitate economic development in emerging markets around the world. OPIC’s Investment Funds also stimulate additional private sector investment in various regions by paving the way for emerging market private equity to grow as an attractive asset class. OPIC-supported investment funds catalyze private sector economic activity by providing companies with long-term growth capital and by facilitating the development of critically needed management skills and technology.

To accomplish these goals, Investment Funds provides loan guarantees to qualified investment fund managers in the private sector. These managers in turn raise risk capital in the form of equity and equity-like investments in companies in emerging markets. Since inception, OPIC-supported funds have contributed approximately \$2.6 billion in private equity capital invested in emerging markets. The restructuring of the OPIC Investment Funds program has proved fruitful with an increase in participation from top quality managers, reduced leverage and much more attractive market-oriented terms. The new procedures add greater transparency to the selection of fund managers, and therefore result in a higher quality of fund management.

Investment Funds re-evaluated its Asset Allocation Plan for FY 2007-2008, which will guide its diversification efforts across regions, sectors, styles, and fund life cycles. At the same time, the Asset Allocation Plan provides Investment Funds with the flexibility to respond to and support U.S. government foreign policy initiatives. Each year Investment Funds assesses both foreign policy objectives and market conditions to create Calls for Proposals. In FY 2006, Investment Funds issued three Calls: Central America, Africa and Eurasia. Currently, for FY 2007, Investment Funds has issued Calls for Proposals for one or more funds in the Global Housing Sector and the Levant region. In addition,

Investment Funds is planning on issuing new Calls for highly developmental and socially responsible investment in Africa.

The following projects provide an example of investments activity the Investment Funds Departments supported in FY 2006 and FY 2007, and demonstrates OPIC's contribution to economic development and foreign policy:

Central America: Call for Proposals – OPIC sought fund managers to invest long-term capital in private companies in the Central America and the Caribbean. The call yielded two highly qualified fund managers making investments in both the Caribbean and Central America. The first, AIC Caribbean Fund with a total Fund capitalization of \$250 million with an OPIC guarantee of \$80 million will catalyze capital into new, expanding and privatization companies in the Caribbean and Dominican Republic. The second, Darby ProBanco II with a total Fund capitalization of \$90 million with an OPIC guarantee of \$45 million, will focus on making investments in the financial services sector in Central America, to provide financing to expand small-to-medium financing loans to entrepreneurs in the region.

Africa: Call for Proposals – OPIC sought fund managers to invest long-term capital in North and sub-Saharan Africa. The call yielded two highly qualified fund managers capable of making investments in both the South African and West African regions. The first, Helios Sub-Saharan African Fund, has a total Fund capitalization of \$300 million with an OPIC guarantee of \$50 million. The Fund will make investments in African-based subsidiaries of multi-national corporations and newly formed businesses with high growth potential serving supply-short product and service markets – two segments of Africa's investment portfolio typically avoided by private equity firms. The second, Thesele I capital Fund, has a total Fund capitalization of \$120 million with an OPIC guarantee of \$40 million. This Fund will focus on investments in small to mid-market, growth-oriented companies operating in South Africa.

Global Housing: Call for Proposals – OPIC sought private equity and real estate managers to invest within the affordable housing sector. A particular emphasis was placed on selecting those managers capable of allocating a substantial amount of capital to the affordable housing segment. The call provided a wide latitude of investment opportunities within the affordable housing sector including: traditional housing development, mortgage banks and mortgage securitization facilities, housing related infrastructure, housing services, and small-to-medium sized enterprise (“SME”) financing in housing oriented businesses. The call yielded several highly qualified fund managers capable of meeting the call criteria. In particular, International Housing Sector Fund has a total fund capitalization of \$300 million with an OPIC guarantee of \$100 million. The Fund will focus primarily in South Africa and Jordan and will invest in individual housing developments and in companies that contribute to the development of affordability of residential housing at any point in the value chain. Another fund, Alsis Latin America Fund, has a total Fund capitalization of \$300 million with an OPIC guarantee of \$100 million. The Fund will focus on Latin America and Mexico and will

securitize pools of residential mortgages with a focus on entry level and middle-income housing.

Levant: Call for Proposals – OPIC sought fund managers to invest long-term capital in Jordan, Lebanon and Egypt, with additional capital available for other OPIC high priority countries in the region. The call yielded one highly qualified fund manager making investments in small and medium sized businesses in Jordan. The Jordan Fund II has a total Fund capitalization of \$150 million with an OPIC guarantee of \$50 million.

Middle East/North Africa: Call for Proposals - OPIC supported the EuroMena Fund, with a total Fund capitalization of \$116 million with an OPIC guarantee of \$50 million. The Fund will seek to achieve long-term capital appreciation through investment in growth stage and mature companies in the MENA region, with a particular emphasis on Lebanon and Jordan.

APPENDIX

Appendix A: Appropriations Language

This language reflects the presentation in the President's Budget *Appendix*.

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 \$47,500,000: 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 2008, 2009, and 2010: Provided further, That funds so obligated in fiscal year 2008 remain available for disbursement through 2016; funds obligated in fiscal year 2009 remain available for disbursement through 2017; funds obligated in fiscal year 2010 remain available for disbursement through 2018: 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 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 II 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 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 2008, for programs under title I 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 2008 Request

(Thousands of dollars)	FY 2006 Actual	FY 2007 Enacted	FY 2008 Request
Administrative Expenses	\$ 41,851	\$ 41,851	\$ 47,500
Credit Subsidy	<u>20,073</u>	<u>20,073</u>	<u>29,000</u>
TOTAL, Gross Appropriations	61,924	61,924	76,500
Net Offsetting Collections	<u>-202,925</u>	<u>-175,279</u>	<u>-236,000</u>
TOTAL, BUDGET AUTHORITY	-141,000	-113,355	-159,500

Table B-2 PART & GPRA Objectives, Goals and Measures

GPRA	GOALS	Outputs & Outcomes	FY 2006		FY 2007 Target	FY 2008 Target
			Target	Actual		
Development Effects	Primary Outcome Goal	Development Matrix score	95	97	95	98
Risk Mitigation and Corporate Citizenship	Statutory Requirements Mitigate risk through sound portfolio management, project development practices, and incentives to encourage good corporate citizenship	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. Site monitor sensitive projects no later than 3 rd year of operation.			
Additionality	Ensure additionality and private sector participation to ensure that OPIC leverages, but does not compete with, the private sector.	% of obligated projects rated additional	Refine Framework for financial transactions			
Policy priority sectors	(See Budget narrative)		West-Bank Gaza		Housing C. Amer. Micro-finance	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.		Implementa- tion of EDN concept	Expand Outreach	
Efficiency	Operate in a businesslike manner.	Implementation of modernized financial systems and risk reporting.		Internal Controls COOP	Internal Controls, COOP	Phase II AIM

This presentation provides the new PART/GPRA format for OPIC for FY 2007 forward. See also the President's Program Assessment Rating Tool at Exhibit B-5 for more detail on OPIC's performance measures.

Table B-3 Summary of Credit Funding Request and Finance Program Activity

(Millions of dollars)	FY 2006 Actual	FY 2007 Enacted	FY 2008 Request
Credit Subsidy Appropriation	20.1	20.1	29.0
Carry-forward from Prior Year	1.8	12.4	5.0
Transfers	-	5.0	-
Total Resources	\$ 26.9	\$ 37.5	\$ 34.0
Projected Activity			
Finance	316	800	950
Investment Funds	538	500	500
New Commitments	\$ 854	\$ 1,300	\$ 1,450
Positive Subsidy	\$ 19.7	23	30
Gross cohort estimated subsidy rate	1.88%	1.77%	2.07%

Notes

For full detail see the President's *Credit Supplement* at http://www.whitehouse.gov/omb/budget/fy2008/pdf/cr_supp.pdf.

Subsidy is obligated on an individual transaction basis, as a result, individual transactions may have subsidy rates that vary widely from rates above, and as published in the President's *Credit Supplement*.

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

Carry-forward amounts are related to base appropriations resources within the appropriated availability and no-year appropriations related to Assistance for New Independent States of the former Soviet Union.

Table B-4 Insurance Program Activities

(Millions of dollars)	2006 Actual	2007 Projected	2008 Projected
Aggregate Maximum Insured Amount			
Start of year	\$ 7,495	\$ 6,585	\$ 5,885
Issuance during the year	476	500	525
Reductions/Cancellations	<u>(1,386)</u>	<u>(1,200)</u>	<u>(1,200)</u>
Outstanding end of year	\$ 6,585	\$ 5,885	\$ 5,180
Maximum Contingent Liability			
Statutory limitation*	\$ 29,000	\$ 29,000	\$ 29,000
End of year	3,680	3,400	3,000
Current exposure to Claims (CEC), end of year	2,490	2,400	2,100
Insurance Premium Revenue	\$ 22	\$ 20	\$ 20

Notes

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

Definitions

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

Maximum Contingent Liability (MCL): MCL is the basis used to measure 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.

Table B-5 OPIC's PART Assessments on ExpectMore.Gov

OPIC registered a “moderately effective” assessment, 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/1000169.2006.html>

Home About Us Contact What's New

ExpectMore.gov
EXPECT FEDERAL PROGRAMS TO PERFORM WELL, AND BETTER EVERY YEAR.

Show Me Programs

PROGRAM ASSESSMENT

Overseas Private Investment Corporation - Insurance

The Overseas Private Investment Corporation (OPIC) Insurance program fosters economic development in new and emerging markets overseas by providing political risk insurance against expropriation, currency inconvertibility, and political violence to eligible US companies investing in these markets.

PERFORMING
 Moderately Effective

- The program is well-managed and has significantly improved its strategic planning by developing strong goals, such as increasing the number of jobs created per \$1 million invested. In FY 2005, OPIC's actual of 28.7 jobs created exceed their target of 20. It has taken constructive steps to integrate development impact in its planning at the corporate, department, and individual levels.
- The program has instituted a requirement that project sponsors seek insurance from at least two private insurance companies before they can apply for OPIC coverage. This policy ensures OPIC does not compete with private insurance companies (called additionality policy). The program also subjects all insurance applications to a separate set of objective criteria for assessing additionality.
- The program has improved interagency coordination, cooperation, and transparency. OPIC works very closely with other US government programs that seek to expand economic development opportunities, like the Department of State and the US Agency for International Development, in priority countries.

We are taking the following actions to improve the performance of the program:

- Improving coordination and cooperation between the program and other government agencies.
- Monitoring the program's implementation of its additionality policy (see bullet two above) to ensure the policy's effectiveness is not being undermined by the discretion given to clients.
- Tying resource allocation to expected performance.

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[OPIC Finance Program](#)

See <http://www.whitehouse.gov/omb/expectmore/summary/1000388.2006.html>

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PROGRAM ASSESSMENT

Overseas Private Investment Corporation - Finance

The Overseas Private Investment Corporation (OPIC) Finance program fosters economic development in new and emerging overseas markets by providing medium to long-term loans or guarantees to eligible U.S. companies investing in these markets.

PERFORMING
 Moderately Effective

- The program has developed strong long-term goals, such as increasing the number of jobs created per \$1 million invested. In FY 2005, OPIC's actual of 28.7 jobs created exceed their target of 20.
- In the past, the Finance deal-originating departments have not been sufficiently independent from the Corporation's credit review process to ensure it makes sound credit decisions. Based on this finding, it has taken steps to improve the independence of its Credit Committee and will continue enhancements to help ensure sound credit decisions.
- The program has improved interagency coordination, cooperation, and transparency. OPIC works very closely with other US government programs that seek to expand economic development opportunities, like the Department of State and the US Agency for International Development, in priority countries.

We are taking the following actions to improve the performance of the program:

- Improving coordination between the program and other government agencies. Ensuring the independence of the Credit Committee and the credit review process.
- Improving public disclosure or projects and enhancing clarity and quality of reporting from the program staff to the OPIC Board.
- Reviewing and monitoring the developmental standards applied to projects to ensure consistent treatment and high standards for all projects.

LEARN MORE

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