

**BUDGET REQUEST
FISCAL YEAR 2011**



An Agency of the U.S. Government

www.opic.gov

Overseas Private Investment Corporation

Congressional Budget Justification

March 2010

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INTRODUCTION

OPIC supports the foreign policy of the U.S. Government by facilitating U.S. private investment in developing and transitioning economies. Private investment is the most effective and efficient engine of long term economic growth, and as a result is one of the most powerful and effective smart power tools available to the United States. OPIC is one solution to the fundamental problem of investing under uncertainty; by sharing risks and charging fees, OPIC is able to strike a balance between the risk to its financial reserves and the developmental benefits of projects it supports.

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

OPIC is a key tool in engaging the private sector in the recovery phase of the current economic cycle, especially given the dislocations of the current crisis. OPIC is taking a more proactive role in identifying highly developmental investment opportunities and investors willing to pursue such opportunities. OPIC also has strengthened its analytical methods for assessing the developmental effects of the projects it supports.

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

As a member of the President's Export Promotion Cabinet, OPIC is working to identify new strategies to mobilize exports in support of the National Export Initiative's (NEI) goal to double exports over the next five years. Since 1971, OPIC projects have generated a cumulative \$74 billion in US exports and supported more than 274,000 U.S. jobs.

OPIC's programs are one of the most effective and efficient means the United States has to support economic growth in the countries in which it operates. OPIC efficiently focuses resources in countries and sectors where it supports projects, and does so in a way that complements the Administration's goals and priorities. While OPIC supports highly developmental investment projects in any OPIC-eligible country, OPIC actively seeks out projects in support of U.S. foreign policy priorities, and in sectors where OPIC support can make a real difference in catalyzing private sector investment.

OPIC’s regional priorities are driven by the dynamics of foreign policy and opportunities for maximum development impact.

- OPIC is working to respond to the *reconstruction needs in Haiti* with potential finance and insurance projects ranging from emergency power generation to cellular phone service. Already, OPIC has committed to a \$10 million loan that will enable a U.S.-headquartered business to manufacture Fiber Composite Panels that will be used to build thousands of energy-efficient homes in Haiti over the next five years.
- OPIC’s focus on the *Broader Middle East and North Africa* is driven by a belief that an improvement in economic conditions and opportunities is a predicate for greater peace, stability, and democratic reform in the region.
- OPIC’s focus on *Sub-Saharan Africa* is driven by Africa’s need to further integrate with the global economy to overcome its comparative lack of economic progress and underdeveloped economic infrastructure.
- OPIC’s increasing focus on *Asia* reflects the fact that U.S. partners and allies throughout Asia and the Pacific are indispensable to our nation’s security and prosperity. They are also a partner in the solutions to the global challenges that the world faces - climate change, the global financial crisis, pandemics and economic disparities. These challenges require that we bolster historic partnerships and alliances while developing deeper bonds with all nations.

In Latin America, OPIC is continuing to mobilize U.S. private investment with new OPIC-supported investment funds, and through lending facilities that increase lending to creditworthy small and medium businesses and micro-enterprises.

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

OPIC considers clean and renewable energy to be a fundamental component of its developmental activities. The sharply rising demand for cleaner and more sustainable sources of energy is addressed by OPIC’s capability and mission to mobilize private investment to promote economic development. OPIC has been exploring the most effective ways to establish the U.S. private sector’s role in this sector in the developing world, where energy consumption has been quite low historically but where demand is increasing sharply, as emerging markets need more and more energy for cars, plants, and transportation. Climate change is no longer just an environmental or an energy issue; it also has implications for health, economic stability, and food security. Consequently, more than ever, OPIC’s role is to create partnerships that promote economic growth and environmental protection through cleaner energy sources, greater energy efficiency, technology transfers that can benefit both countries, and other strategies that encourage sustainable development.

OPIC’s focus on credit to small and medium enterprises and on microfinance is driven by the lack of such credit in most developing countries, and by the important role that small business formation has in generating growth in any economy. Banks in developing countries generally do not lend to small businesses or microenterprises; and when they do, it is often only at very short terms and exorbitant interest rates. In part, this is due to the fact that banks in these countries have the false impression that small businesses are too risky and unprofitable. Moreover, banking regulations often discourage banks from making such loans through onerous reserve requirements. Added to that is the fact that small businesses do not have the financial know-how to present effective, reliable, and well documented loan documents, and the banks do not have loan officers trained to assess loan applications based on cash projections rather than collateral. Equity financing, another potential source of funding for small business, is equally unavailable, since (a) there are few equity funds in these countries, and (b) existing funds generally find it safer to target larger and more established businesses. OPIC addresses these constraints directly by mitigating risks and providing liquidity to support this sector.

OPIC is focused on supporting investment, including private equity and venture capital funds to invest in emerging market companies that take advantage of the transfer, adaptation, and commercialization of existing and new technologies. This focus is driven by the Administration’s leadership in addressing the need to spur innovation and foster entrepreneurship in OPIC-eligible countries throughout Asia, the Middle East, and Africa. The sectors of interest for prospective investment funds and other funding vehicles include, but are not limited to, technology, healthcare, infrastructure, education, telecom, media, business services and financial technology, and renewable energy/clean-technology.

As indicated above, 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 seeks to hold both itself and the projects it supports accountable for the developmental impact of OPIC-supported projects. During the approval process, OPIC assesses the anticipated development impact of projects and then monitors the actual impact, after the project has been in operation for a period of time.

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

At the same time, the challenges posed by the financial crisis on investment flows have significantly increased the need and demand for OPIC support. As the principal U.S. bilateral development finance agency, OPIC is uniquely equipped to help

address these challenges. Thus, despite the decrease in project activity and because of the negative impact of the financial crisis on private investment, the need for appropriated resources out of OPIC's balances will remain high over the period covered by this budget.

OPIC's need for additional administrative resources is focused – as it was last year – on initiatives necessary to address technology, increased staffing, and internal controls. OPIC is requesting a reasonable increase of 3.1% to its administrative expenses budget. This increase is consistent with OPIC's need to continue its investments in systems, people, and integrated processes. These initiatives will be described in the following section.

FY 2011 REQUEST

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

- \$53.95 million to support program administration, an increase of \$1.6 million from FY 2010.
- \$29.0 million in credit subsidy funding, no change from FY 2010.

OPIC proposes an increase to its current authorized 225 FTE level by 5 FTE to 230 FTE. This would enable the agency to reduce its current utilization, and reliance on, contractors, and to build a more durable skill base.

Administrative Expenses

This level will enable OPIC to continue its efforts to improve its administrative and asset management systems and to sustain the initiatives taken in recent years to upgrade its information technology.

OPIC's administrative resources request comes in the context of a growing workload which results both from its shift to more highly developmental projects and from its increased support for projects sponsored by small and medium U.S. enterprises. Both of these shifts, which were mandated by both the President and the Congress, require more in-depth analysis and more hands-on involvement by project officers on projects that OPIC looks to support.

On the governmental side, new imperatives to monitor, evaluate, and report transactions are part of our commitment to OPIC's stakeholders, to Congress, and the Administration. These requirements, along with cross-cutting transparency reporting, internal controls, and government integration efforts, require additional administrative effort.

Technology

OPIC recognizes that effective Information Technology (IT) management and operations requires good integration of information resources, processes, and people. OPIC's Chief Information Officer has developed an IT Strategic Plan that focuses on an effective integration of these components to support OPIC's strategic business objectives.¹ OPIC's IT strategy is aligned with the OPIC Strategic Plan and is designed to meet the agency goals by assuring effective access to integrated information by management, and by serving customers better to improve the overall experience of working with OPIC.

OPIC's core business processes are built on antiquated software and data which limits operational reliability and flexibility.

¹ See http://www.opic.gov/sites/default/files/docs/ocio_strategic_plan_2007_2011.pdf

OPIC's strategy for FY 2011 is to continue the successful efforts to upgrade the IT architecture under Business Systems Replacement Program (BSRP). As part of the BSRP program, OCIO completed work on multiple enterprise level systems that will modernize the loan origination process, stabilize the insurance system, and improve the accounting, budget, and procurement processing systems. These projects will upgrade and integrate a patchwork of stand-alone systems that do not adequately support workflow, track documents, or analyze outstanding commitments. The planned improvements within the BSRP program will make it possible to achieve a much closer integration of OPIC's financial, risk, and reporting systems.

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

Accordingly, OPIC requests a modest increase in its FTE levels to reduce its dependence on contractors in certain critical areas, and to provide a degree of flexibility in planning OPIC's workforce.

OPIC's human capital strategy establishes a priority for the human resource needs associated with:

- Protecting and responsibly managing the financial risks of the portfolio.
- Delivering more transparency to the public and to the interagency community.
- Expanding the capacity to originate projects in policy priority countries, regions, and sectors.
- Translating organizational performance at the strategic level, through new departmental initiatives, and corporate strategic planning efforts, through to the staff level.

In May 2009, OPIC was rated among the best places to work in the federal government, according to rankings issued by the Partnership for Public Service and American University's Institute for the Study of Public Policy Implementation.

OPIC finished second among federal agencies with fewer than 2,000 employees in the Best Places to Work rankings, based on a survey conducted by the U.S. Office of Personnel Management that represents the views of 212,000 federal employees.²

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

Credit Funding Request

OPIC requests a credit reform funding level of \$29 million to meet both normal subsidy requirements, as well as to give OPIC flexibility to address projects in places such as the Broader Middle East and North Africa, Sub-Saharan Africa, and Asia where support is necessary to U.S. foreign policy objectives. OPIC requests three-year availability, as was provided in the FY 2010 appropriation. OPIC's request for FY 2011 reflects the expected subsidy costs of:

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

OPIC is also requesting continuation of the existing \$20 million in credit subsidy transfer authority, which was first enacted in FY 2006. This authority provides the State Department and OPIC with increased flexibility to respond to U.S. foreign policy priorities, as opportunities are identified, or as priorities evolve.

OPIC forecasts that the requested budget will support estimated lending levels of approximately \$2.3 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. OPIC's Development Matrix is a comprehensive analytical tool for measuring the developmental impact of individual projects that OPIC supports.

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

² See <http://data.bestplacestowork.org/bptw/detail/GB00>

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

	2008		2009		2010	2011
	Target	Actual	Target	Actual	Target	Target
Number of Projects	NA	28	NA	117	NA	NA
Average Development Score	95	91	100	86	100	100

Serving the Customer Efficiently

OPIC management has made efficient customer service one of its key priorities. In FY 2009, for example, OPIC supported nearly \$6 billion in total project investment with an administrative expenses budget of \$50.6 million. On this basis, OPIC’s “overhead” is 0.84%, which compares very favorably with other economic assistance programs. By meeting customer needs, OPIC can better achieve its core mission of supporting private investment efficiently, while obtaining a highly developmental payoff.

Transparency

To increase transparency, OPIC has decided to publicly identify potential environmental issues at a much earlier stage in the project development process than in the past. OPIC now requires enhanced consultation with locally affected communities on what the agency calls ‘Category A’ projects – i.e., those with the potential for significant environmental impact. In addition, OPIC has developed an Environmental and Social Policy Statement to provide Applicants (e.g., investors, lenders, or project sponsors) notice of the general environmental and social requirements that OPIC may apply in evaluating prospective projects seeking OPIC support and monitoring on-going OPIC-supported projects. These environmental and social requirements apply, as appropriate, to all projects supported through OPIC insurance, direct loans, or investment guaranties, including support through such Financial Intermediaries as investment funds or financial institutions that make equity or loan investments.³

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 of smaller sub-Board projects, as well as non-business confidential versions of certain environmental documents on Category A projects.⁴

³ See <<http://www.opic.gov/news/press-releases/2009/pr040809>>

⁴ See <<https://www2.opic.gov/environasp/environtable.asp>>

Strengthening Management Practices

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

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

The Audit Committee is currently conducting a risk assessment and three-year audit plan. It issued its first internal control audit report in FY 2008 with the final report in FY 2010.

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

OPIC's economic development mission is guided by U.S. foreign policy objectives. Within those objectives, OPIC is focusing on three regions of the world where its programs are likely to complement most effectively the U.S. foreign policy objectives - the Broader Middle East and North Africa, Sub-Saharan Africa, and Asia. In particular, OPIC continues to focus on stimulating economic activity in countries that need to overcome the legacy of conflict.

OPIC-supported private investment in these regions can advance U.S. foreign policy objectives. OPIC continues to focus on supporting projects in countries and regions that are either torn by current conflict (e.g., Afghanistan and Pakistan, Iraq, and the West Bank), or are seeking to recover from recent conflict (e.g., Lebanon, Liberia and Georgia). OPIC focuses on supporting private investment and activities by U.S. NGOs that can rapidly create jobs, raise incomes, and increase the local population's stake and confidence in peace and stability. OPIC proactively seeks out and works with investors and partner organizations to launch projects that together will help the country to jumpstart economic growth.

In the *Broader Middle East and North Africa*, OPIC-supported private investments can create hope through increased employment and can demonstrate tangible economic benefits resulting from reduced conflict, greater democracy, and increased openness. OPIC is actively engaged in supporting investments that create jobs by increasing access to technology and fostering entrepreneurship through investing in small and medium sized enterprises.

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

U.S., multinational and local troops more difficult and dangerous, and created conditions that can spread terrorism. In Afghanistan, OPIC has commitments of approximately \$167 million in investments in 16 projects and has a pipeline of more than \$200 million in investments in 15 projects. This includes, for example, a \$15 million capital reserve approved in FY 2009 for the first private commercial risk insurance company in Afghanistan, and a \$15.8 million expansion loan approved in FY 2010 for a high quality marble quarrying operation. In Pakistan, OPIC has commitments of approximately \$111 million in investments in 13 projects and a pipeline of more than \$400 million in at least 7 projects, mostly in power generation, access to credit for SMEs, and microfinance.

OPIC has launched projects in Lebanon, Jordan, and the West Bank. In *Lebanon*, OPIC and Citibank worked together to speed up the country's recovery by channeling private capital to Lebanese banks. After the 2006 conflict, OPIC was able to rapidly disburse \$108 million in 2007 to help small and medium sized businesses rebuild, reopen and become productive again. In 2008, another framework agreement was established with Citibank to further support the continued need for financing by entrepreneurs.

In the *West Bank*, OPIC is seeing the fruits of the efforts begun in 2005 when it first teamed up with the Aspen Institute and the Palestinian Investment Fund to create a \$228 million small business lending facility. The facility has engaged financial institutions, which lend to downstream Palestinian borrowers on affordable terms based on cash flow-based lending criteria. To date, the facility has engaged a total of eight local banks to participate and has approved 205 guarantees to loans valued at \$48 million. Each one of the individual loans represents an entrepreneur building a business that makes a difference in the local community. OPIC also is working with the Palestinian Investment Fund, local banks, and the IFC on a \$500 million (\$250 million OPIC Share) mortgage facility that will develop affordable housing opportunities for Palestinians.

In *Iraq*, OPIC supported the creation of the Iraq Middle Market Development Foundation (IMMDF) with capital provided by the Coalition Provisional Authority (CPA) in 2005. Cooperative Housing Foundation (CHF International), the Sponsor, was selected through a competitive bidding process to operate the company to make loans to Middle Market Enterprises (MMEs) (IMMDF 1) and subsequently to smaller enterprises and the agricultural sector (IMMDF 2) and finally to SMEs (IMMDF 3). IMMDF was originally conceived to work with commercial banks in Iraq, but the undercapitalized banking sector was not an effective partner. For all three facilities, OPIC has provided almost \$82 million in direct loans (IMMDF 3 has just been approved and has not yet disbursed). OPIC is in the final stages of obtaining approval to extend a \$90mm microfinance facility for an NGO operating in Iraq. In FY 2009, in cooperation and coordination with Iraq's Ministry of Finance, the State Department and the Department of Defense, OPIC's Board approved a \$50 million loan to finance a \$100 million business-class hotel property in the international zone of Baghdad, to facilitate greater international investor interaction with the government on a broad range of investment opportunities.

In *Jordan*, OPIC has made substantial and sizable commitments across a range of sectors. OPIC supports low income mortgages enabling a bank in Jordan to expand homeownership for low-

income families in the country. OPIC also financed projects in water supply and power generation. OPIC's total exposure stands at \$629 million, as of the end of calendar 2009.

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

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

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

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

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

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

OPIC Support for Renewable Energy and Clean Technology

OPIC fully supports environmental improvement and the use of cleaner forms of energy in its developmental activities. OPIC's portfolio includes energy projects generating a cumulative total of more than 2,200 MW of clean power, including solar, small hydro and wind. Many of these projects involve U.S. small businesses. In addition, OPIC supports projects involving the development and deployment of clean technologies.

Looking ahead, OPIC expects to support more clean energy projects including solar, wind, biomass and biofuels, as well as waste-to-energy projects. In early 2008, OPIC established a group dedicated to identifying and underwriting renewable energy transactions and other projects aimed at sustaining the environment. The group has established relationships with key stakeholders in the sector and identified projects most suited to OPIC financing. The team has made financing commitments to nine projects in FY 2009 totaling nearly \$188 million. This doubles OPIC's portfolio of outstanding renewable and clean tech projects as compared to the previous year end. Project commitments include financing for one of the first, if not the first, grid-connected solar generation facility in India, green housing community in Poland, a biomass generation facility in Liberia and a renewable energy and solar power cool storage in Afghanistan.

In this sector, OPIC has taken a more active, "hands-on approach" to project development alongside U.S. investors. The renewable energy group tracks projects in its pipeline for assisting sponsors over important hurdles, such as identifying viable equity sources. Detailed tracking also allows the team to maintain a view of OPIC's potential financing commitments, and plan OPIC workforce allocation needs. At this time, OPIC is tracking approximately \$2 billion in projects that could be in need of OPIC finance assistance. This represents approximately 50 projects. A significant number of these projects is being developed in Africa and Central America. OPIC expects to increase the number of projects in its finance portfolio in each of the next three years.

At the Washington International Renewable Energy Conference (WIREC) held in Washington, DC, in March 2008, OPIC announced the Global Renewable Energy Call for Proposals. The purpose of the Call was to finance private equity funds that facilitated the investment of risk capital to companies or projects within the renewable energy sector and other related sectors in the field of energy and environmental sustainability. Through the Call, OPIC addressed an important policy objective of the U.S. Government: to promote private sector investment in the global renewable energy industry. The funds that OPIC has elected to support under this Call are described below under "Investment Funds – Global Renewable Energy Funds."

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

The economic development community has come to recognize that making medium- and long-term credit available to creditworthy SMEs is one of the most effective tools available to ignite economic growth and productive job creation. In many, if not most, developing countries bank loans for more than 12 months are simply not available to small businesses, and the credit that is available requires extensive collateral and often on unaffordable terms. SMEs are vital to

energizing private sector driven economic growth, but all too often, SMEs are unable to grow in a sustainable manner because they lack access to capital needed for business operations and planned expansions.

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

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

The business models OPIC has pioneered include:

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

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

For example, in **Afghanistan**, OPIC is exploring providing a direct loan to expand ACDI/VOCA's Afghanistan Rural Finance Corporation's capital base for agribusiness and SME loans, as well as expanding the capital base of the OPIC-initiated, local SME lender the Afghan Growth Finance Co., operated by the U.S. Small Enterprise Assistance Fund (SEAF), and is working with USAID and ShoreBank International to undertake Sharia compliant rural SME lending with the Afghan United Bank in the underserved and sensitive southern portion of the

country. Both finance companies (ARFC and AGF) would have a national reach, with a target network size estimated at up to 19 branches and/or service centers, with three of the branches dedicated to Islamic finance products in the troubled southern provinces and some of the SME loan portfolio targeted towards women.

OPIC Support for Microfinance

Microfinance institutions (MFIs) provide a broad range of financial services, including access to credit by the un-banked and under-banked populations in developing countries.

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

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

In this difficult environment, OPIC has increased its efforts to provide financing to the microfinance sector by participating in a number of microfinance transactions that are essential for the MFIs and their borrowers to maintain and continue to grow their business activity. To that end, OPIC has established a number of global and regional facilities.

Examples of some innovative transactions include:

MFX Solutions – OPIC provided a \$20 million loan guaranty to MFX Solutions, a Washington, D.C.-based company which manages currency risk in the microfinance industry. MFX will offer currency hedging products such as currency swaps to MIVs, which in turn will provide loans in local currency to MFIs in various countries around the world, particularly in Africa. By enabling MFIs to borrow in their own currency, the project will enable MFI's to match liabilities to assets, significantly lowering risk and thereby catalyze private capital flows into developing markets. The project is expected to mobilize nearly \$140 million in lending to microentrepreneurs in its first year, and more than 400,000 microfinance loans over five years. The project is expected to support lending in more than 50 countries worldwide, predominately targeting Africa and Latin America, with about 20 percent of its funds allocated to Asia, Eastern Europe and the Middle East.

Sante GMT – A U.S. small business will use an OPIC \$10 million loan to expand manufacturing operations at the largest producer of dairy and juice products in Georgia, establishing new milk collection centers, upgrading equipment for production lines, and improving its distribution network. The same business used a 2006 OPIC loan for a similar technology upgrade which benefited both the company and the dairy industry in Georgia. The company will use the loan to establish additional new milk collection centers, upgrade the distribution vehicle fleet, add equipment for production of premium butter, processed cheese,

and bio-products, and a new packing line for juice packaging. The milk collection centers in particular will enable the company to produce a fuller range of dairy products utilizing all of the byproducts such as skimmed milk, fat and whey left from natural milk processing. Sante GMT is owned in part by five U.S. investors.

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

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

Citibank Microfinance Facility has demonstrated the world wide demand for financing in this market. Through July 2009, the facility has supported over 25 institutions with over \$50 million of loans to microfinance borrowers on every continent, including such countries as India, Jordan, Romania, El Salvador, Philippines, Honduras, Mexico, Kenya, Kazakhstan and Uganda.

Moreover, at the Summit of the Americas in FY 2009, President Obama announced OPIC's support for the \$100 million initial stage of a multilateral Microfinance fund for the Western Hemisphere (**MiGroF**). With other private and public sources of capital, MiGroF will make medium and long term senior loans and subordinated loans to microfinance institutions (MFIs), microfinance investment vehicles (MIVs), and other financial intermediaries that reach out to micro and small enterprises in Latin American and the Caribbean (LAC).

With the state of the global credit markets today, microfinance institutions are having a more difficult time in raising capital, and OPIC is poised to continue its support of these dynamic grassroots organizations. **OPIC is working on new and innovative projects to address microfinance needs in global emerging markets** and is considering the following business models to expand its support of microfinance institutions:

- Addressing liquidity needs of microfinance sector by filling the financing gap resulting from the reduction in private sector investment.

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

OPIC Support for Housing

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

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

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

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

OPIC Focus on U.S. Small Business Investors

OPIC continues to place a special emphasis on helping American small businesses become investors in the developing world. Helping small businesses to invest overseas is an important way to distribute the benefits of international commerce more broadly throughout the U.S. economy. Small business is a part of nearly every U.S. community: the U.S. Small Business

Administration (SBA), for example, reports that small businesses employ about 50 percent of all private sector workers and create 75 percent of the net new jobs in the American economy.

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

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

The ideal OPIC-supported small business project is not any different than the largest projects the agency supports. A good OPIC project addresses an important developmental need in the host community, transfers technology and skills from a successful American company to a nascent industry in an emerging market, and supports 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 long-term profitability and job creation.

In **2007**, OPIC supported 111 new projects that involved small- and medium-sized enterprises, which accounted for 80% of the 139 projects supported in that year.

In **2008**, OPIC supported 49 new projects that involved small- and medium-sized enterprises, which accounted for 62% of the 78 projects supported in that year.

In **2009**, OPIC supported 89 new projects that involved small- and medium-sized enterprises, which accounted for 76% of the 117 projects.

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

To date, OPIC has held seven *Expanding Horizons* workshops across the country, attracting 765 participants, in 22 states, and involving the support of 67 supporting organizations. The invaluable partnerships created from the workshop series has allowed OPIC to further outreach to the minority and women-owned business community, participating and speaking at events coordinated by organizations such as the Jamaica Business Resource Center of New York, the Continental-Africa Chamber of Commerce, and the California Centers for International Trade and Development. In 2008, OPIC was also pleased to welcome to its strategic "Partners Program" the National Association of Business Owners (NAWBO).

OPIC continued the *Expanding Horizons* series with two more regional workshops in 2009. The Boston, September 24 workshop featured the keynote speaker Elizabeth J. Weber, co-founder and director of Edge Development Group, Inc. (EDG), a business consulting firm based in Ridgefield, Connecticut. EDG has worked extensively in Europe, Latin America, and the Middle East, assisting governments in the formulation and the implementation of international inward investment programs. Ms. Weber is a past president of the Connecticut chapter of the National Association of Women Business Owners (NAWBO), and a founder and past chair of NAWBO's International Forum.

Leveraging U.S. Government Resources

OPIC recognizes that it can better achieve its developmental mandates with greater effectiveness and efficiency, if it works in close collaboration with its sister agencies in the government.

Policy reforms and social investments supported by grant-funded technical assistance provided by the Millennium Challenge Corporation (MCC), the U.S. Agency for International Development (USAID), the Department of the Treasury, the Department of State, or the Trade and Development Agency complement OPIC-supported private investments. For example, grant-funded technical assistance for the reform of laws underpinning property titles, title insurance, and consumer mortgages help reinforce OPIC-supported private investment in the housing sector.

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

OPIC seeks out opportunities for interagency collaboration and to establish channels of communication between OPIC's top managers and their counterparts in other agencies.

Critical Importance of OPIC Insurance

OPIC's Political Risk Insurance is a critically important element to OPIC's efforts to mobilize capital in developing countries. OPIC's financing capabilities help put investors in business, but OPIC Insurance programs provide the confidence to investors to take the risks associated with emerging market investment. In the absence of insurance, entrepreneurs would find it difficult, if not impossible, to risk their equity and their credit reputations with financial institutions. In the same vein, banks are willing to take risk and lend money into politically difficult situations only if they can significantly reduce the risk to their balance sheets through comprehensive insurance programs. Coverage is provided for the full range of investors, large and small, against a wide variety of risk including inconvertibility, expropriation, loss of business income, breach of contract or guarantee, and political violence.

OPIC Insurance works with the private insurance industry by providing coinsurance and reinsurance programs that encourage them to support U.S. businesses interested in making investments with a high developmental impact in countries judged too risky on a purely commercial basis. As a government agency, OPIC can take risks that the private political risk insurance industry on its own would be otherwise unwilling to take.

OPIC Insurance has also traditionally played an important role as a product innovator, by developing innovative political risk insurance products, such as the first political risk contracts for Capital Markets investors investing in emerging market bond offerings. The private political risk market then adopted the product and began offering it themselves. OPIC continues to explore new product concepts, such as coverage for intellectual property.

OPIC Insurance is Customer Focused

In May 2009, OPIC organized a conference for its customers. The conference was attended by approximately 100 leaders of the U.S. private sector – including top investors, bankers, insurance and legal experts – as well as representatives of the federal government, business associations and nonprofit organizations. At the conference, OPIC held roundtable discussions regarding potential new OPIC insurance products tailored specifically for sectors such as renewable and alternative energy, finance, nonprofit organizations and schools, small and medium-sized enterprises, and insurance companies themselves. Other discussions focused on investment opportunities in emerging markets that could be realized with the support of OPIC political risk insurance.

Framework Agreements

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

Enterprise Development Network

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

EDN includes the following participants:

- EDN Originators: comprised of business consultants and not-for-profit organizations worldwide, will be trained by OPIC to advise SMEs in drafting business plans, enhancing market strategies and preparing applications that meet OPIC's standards and policy conditions for both OPIC Finance and Political Risk Insurance programs.
- EDN Network Investors: debt and equity providers that may or may not have OPIC's financial support, but invest in SMEs or their affiliates for projects in OPIC-eligible countries.
- EDN Advisors: specialists in particular business sectors and geographic areas, which will assist OPIC in credit underwriting and due diligence on OPIC-funded loans. To date, 18 advisors have been appointed.

Currently 50 organizations collectively covering a broad range of industry sectors now serve as EDN Loan/Insurance Originators. They are located in the U.S. as well as in Africa and Asia, with several organizations having their own global presence. Approximately 80 people from these organizations have received classroom or web-based EDN training, designed to provide a meaningful exposure to the EDN program and the specific requirements of OPIC financing and insurance.

EDN encourages collaboration among USG agencies, multilaterals, NGOs, for-profit organizations, and, most importantly, the private sector (investment funds, banks and private businesses), and does not attempt to replicate an existing activity or program. Rather, it links project finance and support with the most effective provider. For example, USAID provided OPIC with up to \$2 million for the EDN Africa Technical Assistance program (EDN/ATA), where qualified SMEs in sub-Saharan Africa can receive technical assistance to develop the viability of an underlying project. EDN/ATA became fully operational in April 2009 and OPIC receives no income for administering the initiative.

OPIC-Supported Investment Funds

Technology Growth

Responding to the President's Cairo speech, OPIC launched the Global Technology and Innovation Call. OPIC received 87 applications, the largest response to any call in OPIC's history. OPIC is currently finalizing due diligence with finalists likely to be announced in spring / early summer 2010. The funds will facilitate the investment of risk capital in new businesses and in the expansion of existing companies, which will take advantage of the transfer, adaptation, and commercialization of new and existing technologies in Asia, the Middle East, and Africa. The sectors of interest for prospective funds may include but are not limited to technology, healthcare, infrastructure, education, telecom, media, business services and financial technology, and clean-tech. Consideration will be given to fund proposals that will (i) provide private sector businesses with a source of capital not presently available in scale, and/or (ii) that will provide investors with new or increased product for investment, and/or (iii) otherwise best meet the OPIC Selection Criteria.

OPIC anticipates providing up to \$150 million in debt financing to each selected fund. OPIC's support should represent no more than one third of the fund's total capital, with a minimum OPIC commitment of \$25 million. OPIC's financing will be provided in the form of senior long-term indebtedness loaned or guaranteed by OPIC. The balance of each selected fund's capital is to be equity raised from private investors, international financial institutions, and other parties.

Global Renewable Energy Funds

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

Middle East & Asia Capital Partners Clean Energy Fund II

OPIC is providing up to \$50 million in financing to the fund, which will invest in a wide spectrum of renewable energy projects throughout Asia, with an emphasis on South and Southeast Asia. It will invest in equity, convertible debt and mezzanine debt in projects – wind farms and geothermal production, for example – as well as in manufacturing and service companies that serve the renewable and biofuels sectors. OPIC selected as fund manager Middle East & Asia Capital Partners Pte., Ltd (MEACP), a private equity platform connecting the Middle East and Asia. The fund has a target capitalization of \$150 million. The fund will be raised in parallel with the targeted \$250 million MEACP Clean Energy Fund, which will invest in parallel with the fund in investments eligible for OPIC support.

South Asia Clean Energy Fund

OPIC is providing up to \$100 million in financing to the fund, which will invest in companies and projects that support the need for cleaner forms of energy in the region—including those utilizing solar, wind, hydropower, biofuel and natural gas. The fund will also invest in technologies that promote: energy efficiency; improved batteries and storage, clean

transportation, clean water systems, and environmental and energy efficient building. It will focus on companies that service the renewable energy value chain, and on building South Asian regional and global growth companies. Approximately 75 percent of the fund's investments are expected to be made in India. OPIC selected as fund manager GEF Management Corporation, which has previously managed two successful OPIC Funds, Global Environment Emerging Markets Fund, L.P. and Global Environment Emerging Markets Fund II, L.P. The fund has a target capitalization of \$300 million.

FE Global Clean Energy Services Fund IV

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

US Renewables Group

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

Good Energies – Wolfensohn Renewable Energy Fund

OPIC will provide up to \$100 million in financing to the Fund, which will invest in expanding businesses that manufacture, develop, supply, or support renewable energy products or services in emerging markets worldwide. The Fund intends to invest in renewable energy projects, energy efficiency and clean energy technology. The Fund will target both emerging-market companies that target their domestic markets and OECD-based renewable energy companies that are expanding into emerging markets. OPIC selected as fund manager a joint venture between Good Energies II L.P. and Wolfensohn Low Carbon Energy Fund, L.P. The fund has a target capitalization of \$300 million.

Virgin Green Emerging Markets Fund, LP

OPIC is providing up to \$100 million in financing to the Fund, which plans to invest in companies involved in the renewable energy and resource efficiency sectors in emerging market countries. The Fund is targeting \$200 million to invest in growth and expansion capital in companies across the renewable energy and resource efficiency sectors. The Fund is a follow-on to the existing Virgin Green Fund I, L.P. ("Fund I"), presently an approximate \$250 million fund formed in June 2007 to invest primarily in the U.S. and Europe. The Fund will apply to the emerging markets a strategy similar to that employed in Fund I.

Upcoming Priorities Regarding the Asset Allocation Plan

The Investment Funds Department continues to assess the Emerging Market Private Equity landscape in light of the current economic environment and as in the past, and worked with a consultant and OPIC management on an asset allocation plan to identify appropriate opportunities for additional OPIC support. Due to the lack of depth and breadth of emerging market capital markets, OPIC's role to continue catalyzing private sector capital to invest in emerging markets in the current environment is paramount. Through its strategic review and meetings with other International Financial Institutions, the Investment Funds Department sees an opportunity to expand its Call program to meet the present market needs of emerging market fund managers. For example, as part of a forward looking asset allocation plan, OPIC may consider supporting new funds focused on investing in distressed assets and on the purchase of secondary pools of equity interests. Such initiatives could provide OPIC an opportunity to restore functionality to capital markets by providing patient and developmental capital in congruence with OPIC's mission. Other initiatives such as investment in agriculture, small and medium enterprises, and other high priority regions, as well as investment in infrastructure and on additional sustainable investment including renewable energy should also be considered.

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 \$53,946,000: *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 2011, 2012, and 2013: *Provided further*, That funds so obligated in fiscal year 2011 remain available for disbursement through 2019; funds obligated in fiscal year 2012 remain available for disbursement through 2020; funds obligated in fiscal year 2013 remain available for disbursement through 2021: *Provided further*, That notwithstanding any other provision of law, the Overseas Private Investment Corporation is authorized to undertake any program authorized by title IV of the Foreign Assistance Act of 1961 in Iraq: *Provided further*, That funds made available pursuant to the authority of the previous proviso shall be subject to the regular notification procedures of the Committees on Appropriations. In addition, such sums as may be necessary for administrative expenses to carry out the credit program may be derived from amounts available for administrative expenses to carry out the credit and insurance programs in the Overseas Private Investment Corporation Noncredit Account and merged with said account

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 2011, 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 2010 Request

Appropriated Resources (Dollars, Millions)	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Request
Gross Budget Authority			
Administrative Expenses	\$ 50.6	\$ 52.3	\$ 53.9
Credit Subsidy	29.0	29.0	29.0
TOTAL, Gross Appropriations	\$ 79.6	\$ 81.3	\$ 82.9
Negative Subsidy, estimated	(40)	(50)	(67.0)
Insurance Premiums	(20)	(20)	(18.0)
Interest on Treasury Securities	(210)	(191)	(192.3)
Noncredit Obligations	13	23	5.0
Net Offsetting Collections	\$ (257)	\$ (237.8)	\$ (272.3)
Net (Negative) Budget Authority	\$ (177.4)	\$ (156.5)	\$ (189.4)
Memo: Transfer Authority	\$ 20.0	\$ 20.0	\$ 20.0

Table B-2 Summary of Credit Funding Request

(Dollars, Millions)	2009 Actual	2010 Estimate	2011 Request
Credit Subsidy Appropriation	\$ 29.0	\$ 29.0	\$ 29.0
Transfers	-	-	-
Total New Resources	\$ 29.0	\$ 29.0	\$ 29.0
Projected Activity			
Finance	2,700	2,000	1,800
Investment Funds	527	500	500
New Commitments	\$ 3,227	\$ 2,500	\$ 2,300

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.

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)	2008 Actual	2009 Actual	2010 Projected	2011 Projected
Aggregate Maximum Insured Amount				
Start of year	\$ 6,269	\$ 5,169	\$ 4,516	\$ 4,064
Issuance during the year	29	456	330	553
Reductions/Cancellations	<u>(1,129)</u>	<u>(1,109)</u>	<u>(752)</u>	<u>(756)</u>
Outstanding end of year	\$ 5,169	\$ 4,516	\$ 4,094	\$ 3,861
Maximum Contingent Liability				
Statutory limitation**	\$ 29,000	\$ 29,000	\$ 29,000	\$ 29,000
End of year	2,922	2,689	2,305	2,190
Current exposure to Claims (CEC), end of year	2,245	1,945	1,693	1,608
Insurance Premium Revenue	\$ 20	\$ 15	\$ 15	\$ 15

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 by the Foreign Assistance Act. Under most active OPIC contracts, investors may obtain all three coverages – inconvertibility, expropriation, and political violence – but aggregate claim payments may not exceed the single highest maximum insured amount for each contract.

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

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

GPRA	PART PERFORMANCE GOALS Outputs & Outcomes		FY 2009		FY 2010	FY 2011
			Target	Actual	Target	Target
Development Effects	Projects	Finance Projects	98	86	100	100
		Insurance Projects	98	91	100	100
<i>Development Matrix score</i>	Average		100	86	100	100
Efficiency	SBC Cycle Time	Insurance	70	56	70	70
		Finance	70	51	70	70
		Operate in a businesslike manner. Improvement Action: Business Systems Replacement Plan (BSRP) will improve support of integrated business processes and internal controls by replacing legacy systems / technology.	Internal Controls COOP	BSRP	BSRP	
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.	Ensure self-monitoring on all active projects.				
	Mitigate risk through sound portfolio management, project development practices, and incentives to encourage good corporate citizenship.	Site monitor sensitive projects no later than 3 rd year of operation.				
	% of on-going OPIC Projects monitored for compliance with OPIC's U.S. effects, environmental, and worker rights standards.		100%	95%	100%	100%
Additionality	Ensure additionality and private sector participation to ensure that OPIC leverages, but does not compete with, the private sector.		92	88	93	93
Policy priority sectors	(See FY Budget narratives)	West-Bank Gaza			Afghanistan-Pakistan Haiti / Clean Energy Global Engagement National Export Initiative	
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	

Appendix D: Development Matrix

EXPANDED DEVELOPMENT IMPACT MATRIX (XDIP)

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

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

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

FINANCIAL SERVICES DEVELOPMENT IMPACT MATRIX (finDIP)

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

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

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

[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 navigation menu includes 'PROGRAM' (View Assessment Details), 'RATING' (What This Rating Means), and 'IMPROVEMENT PLAN' (About Improvement Plans). The main content area is titled 'PROGRAM ASSESSMENT' and features the following information:

- Program Name:** Overseas Private Investment Corporation - Insurance
- Description:** 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**
OO Moderately Effective
- Key Findings:**
 - 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.
- Improvement Actions:**

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.

At the bottom, there is a 'LEARN MORE' section with links to 'View Similar Programs', 'How all Federal programs are assessed', and 'Learn more about Overseas Private Investment Corporation - Insurance'. A footer note states: 'The content on ExpectMore.gov is developed by the U.S. Office of Management and Budget and Federal agencies.'

OPIC Finance Program

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

The screenshot displays the ExpectMore.gov website interface for the Finance program. The layout is identical to the Insurance program page, with the following specific content:

- Program Name:** Overseas Private Investment Corporation - Finance
- Description:** 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**
OO Moderately Effective
- Key Findings:**
 - 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.
- Improvement Actions:**

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.

The 'LEARN MORE' section and footer are also present, identical to the Insurance program page.