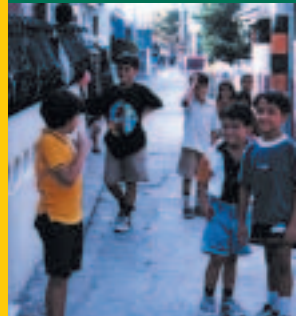
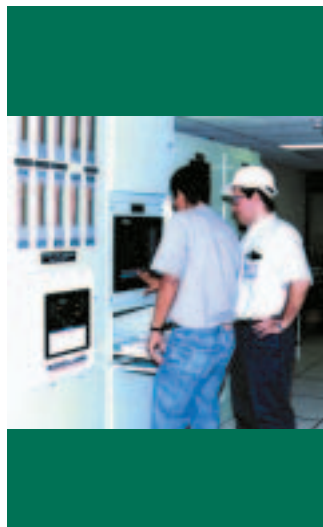


**Overseas
Private
Investment
Corporation**



Development Update:

**Expanding OPIC's Development
Impact Assessment**

Development Update:

Expanding the Overseas
Private Investment
Corporation's Development
Impact Assessment

June 2003



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PRESIDENT'S LETTER

“Development is not always easy, but the conditions required for sound development are clear ... Development also depends upon financing. Contrary to the popular belief, most funds for development do not come from international aid — they come from domestic capital, from foreign investment, and especially from trade ... Developing countries receive approximately \$50 billion every year in aid. That is compared to foreign investment of almost \$200 billion in annual earnings from exports of \$2.4 trillion. So, to be serious about fighting poverty, we must be serious about expanding trade.”

—*President George W. Bush*

Globalization in the post-war period has meant that in just a few decades, about a billion people in the developing world have been lifted out of poverty and now enjoy a better quality of life. To sustain this trend, America's participation and leadership in the global economy must not only continue — it needs to expand. Since the private sector drives growth, OPIC's commitment to strengthening its development impact is so important.

When I came to OPIC, my key priority was to strengthen OPIC's developmental mandate. To achieve this goal, it was vital that OPIC examine critically each proposed investment in terms of its development impact. With this knowledge, we could focus our resources and support on those projects that would have the greatest economic and social benefit to less-developed countries and countries in transition from non-market economies.

This refocusing on OPIC's core mission is a critical element in enhancing both OPIC's role and ongoing relevancy. By investing in projects with the greatest developmental benefits, OPIC can make a greater contribution to the reduction of worldwide poverty. By supporting private sector investment in the least developed areas of the world, OPIC can help to bring a better quality of life to populations that lack access to health care, education and other basic necessities. This improved quality of life provides a catalyst for better enabling people to contribute to economic growth. When development creates sustainable and enduring economic growth, institution building, political pluralism and stability are enhanced.

Achieving this objective depends on our ability to evaluate and assess the overall development impact of the projects OPIC supports. The new development measures outlined in this publication will provide a foundation upon which OPIC can best determine where it might fill the greatest need and where the agency's support will have the widest developmental benefits. In other words, they will provide OPIC guidance on how the agency can best leverage private sector investment to fulfill our developmental mandate.

This report outlines the measurable development criteria OPIC will use to evaluate the development contribution of individual projects. But these criteria will also be used to measure OPIC's overall success in implementing the developmental mission it was given by Congress over three decades ago. Working closely with the Office of Management and Budget, we have created an effective tool which will guide our strategic and operational planning.

The development of these criteria has been a critical element in our strategy to make OPIC more relevant and more faithful to its original mission. This new decision-making tool will both strengthen and simplify the process of evaluating projects by offering a structured, straightforward methodology for identifying key developmental impacts. It will also help underpin OPIC's new strategy of building strategic partnerships between private investors, the host governments, and local community-based organizations.

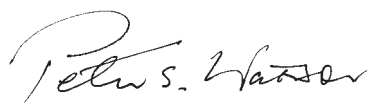
OPIC's scoring matrix weighs each development indicator according to its importance in contributing to the economic and social welfare of the host country. OPIC has identified human capacity building, private sector development, and leveraging foreign direct investment as central to fulfilling our developmental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

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

The development criteria will be an important complement to another set of criteria we have developed for evaluating the additionality of proposed projects. The additionality criteria are an important tool we use to make sure that OPIC projects are consistent with President Bush's budget message last year, which challenged OPIC to "focus more closely on companies and countries that cannot access private financing or insurance", so that its programs are complementary, not competitive, with the private market.

As part of its strategic plan, OPIC has committed to reaching quantitatively measurable performance targets that will demonstrate that the agency's products and services are achieving our targeted development objectives. Our goal is to respond to the need to develop measurable and objective criteria that can be verified, preferably through quantitative analysis. As outlined in this report, I believe we have accomplished that goal.

This report highlights OPIC's continued efforts to foster economic development in emerging markets and developing nations.



Peter S. Watson
President and CEO

CHAPTER ONE: WHY REFOCUS?

Refocus - 1: to focus again **2:** to change emphasis or direction

Tokyo-Sept 11,2002 (Reuters) - Private capital flows to developing economies, the elixir of growth for many countries, are likely to shrivel this year to the lowest level in a decade, the Institute for International Finance said on Wednesday. Charles Dallara, managing director of the Washington-based body, blamed a combination of reckless politicians, cautious investors and a heavy-handed International Monetary Fund for the expected decline.

He projected net private flows would fall some \$35-40 billion from their level last year to around \$125 billion ... Private capital investment in emerging markets reached \$233 billion to \$331 billion a year between 1995 and 1997 before a succession of financial crises, starting in Asia, dampened enthusiasm for lending to developing countries.

... Politicians, he said, had little room for error now that the bulk of emerging-market borrowing was in the form of bonds, which are subject to instant market judgments, rather than bank loans. "A capital-markets world is inherently more volatile, and you have to treat it with much greater care than they seem to do — both the politicians in power and the politicians who may come to power," Dallara said. Investors and bankers, in turn, must have realistic expectations of political risk in still-maturing democracies and be able to look beyond short-run risks

OPIC's need to refocus stems from its most basic objective: serving as a catalyst for emerging market capital flows. As the text box above, and Figure 1 and Table 1 below illustrate, emerging market capital flows have witnessed a dramatic decline since 1997. Few would argue a dramatic rebound is in sight. Table 1 outlines recent trends in emerging market flows. This increases the challenge to OPIC to serve as a catalyst for increasing the flow of private capital.

Table 1: Net long-term resource flows to developing countries, 1991-2001

(billions of dollars)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000a	2001b
Net long-term resource flows	124.2	153.7	220.9	222.4	260.2	306.6	341.4	336.7	271.8	261.1	196.5
Official flows	62.2	54.3	53.4	46.0	54.1	30.3	40.7	53.4	47.4	35.3	36.5
Private flows	62.0	99.4	167.6	176.4	206.1	276.2	300.7	283.3	224.4	225.8	160.0
	26.4	52.2	101.0	86.3	99.3	145.5	128.2	105.0	40.1	59.1	-8.3
Debt flows	18.8	38.2	50.0	51.2	63.3	96.5	98.1	89.4	5.6	8.2	-26.8
Bank lending	5.0	16.3	4.1	9.3	30.9	32.2	45.6	51.9	-23.3	-6.1	-32.3
Bond financing	11.0	11.1	36.7	38.1	30.7	62.3	49.6	40.9	29.5	16.9	9.5
Other	2.9	10.8	9.2	3.7	1.7	2.1	2.9	-3.4	0.5	-2.5	-4.0
Equity flows	7.6	14.1	51.0	35.2	36.1	48.9	30.1	15.6	34.5	50.9	18.5
	35.7	47.1	66.6	90.0	106.8	130.8	172.5	178.3	184.4	166.7	168.2

a Preliminary

b Estimate

Source: World Bank Global Development Finance 2002

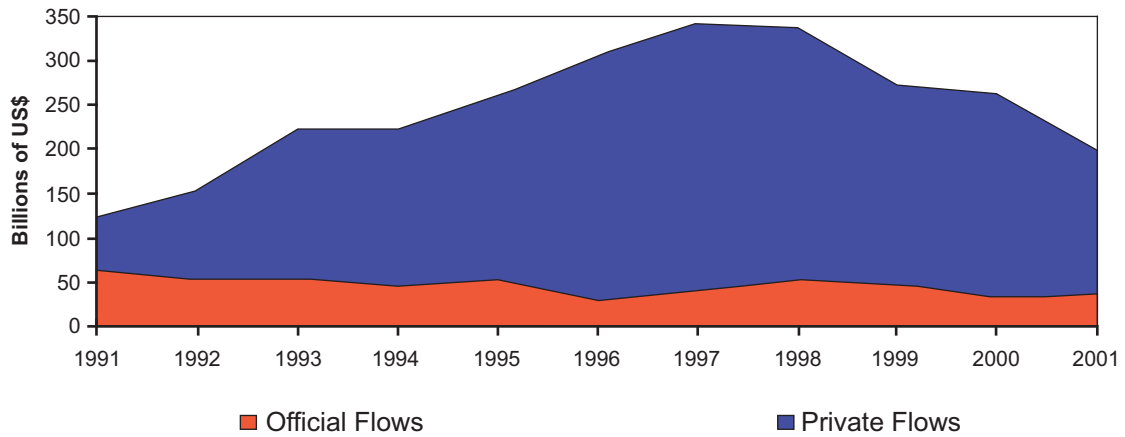


Figure 1: Private Flows vs. Official Flows, 1991-2001

OPIC’s finance and insurance programs facilitate the most important and developmental component of emerging market capital flows shown in Table 1 and Figure 1. *Foreign direct investment* (FDI) is defined as investment in productive assets by a company in a foreign country. Contrast this with investment in the shares of local companies by foreign entities, or *portfolio flows*, a far more volatile component of capital flows.

In contrast to portfolio flows, foreign direct investment¹ tends to be long-term in nature. It takes time to build a port, or factory. Foreign investors in this type of project tend to research the prospects for success extensively, and are unlikely to be driven from a market by the prevailing political winds or volatility in the financial markets.

The enormity of the shift in emerging market flows is somewhat lost in the details of Table 1 (page 3), but is more apparent in Figure 2 (page 5). Here FDI is presented as a percentage of total long-term resource flows on the same graph with official flows as a percent of total long-term resource flows. FDI’s increasing importance and the dramatic decline in official development assistance becomes quite clear: as the multilaterals’ share of total flows decline, the private market becomes even more important. Thus, OPIC’s need to refocus its mission becomes even more important.

¹ Which is not to say that all economists are strident supporters of FDI as a tool of development. Former World Bank chief economist Joseph Stiglitz once remarked, “foreign investment is important, but it goes to relatively few countries and in relatively few sectors. Foreign direct investment misses out on rural roads, on health and education - all important to developing countries.”

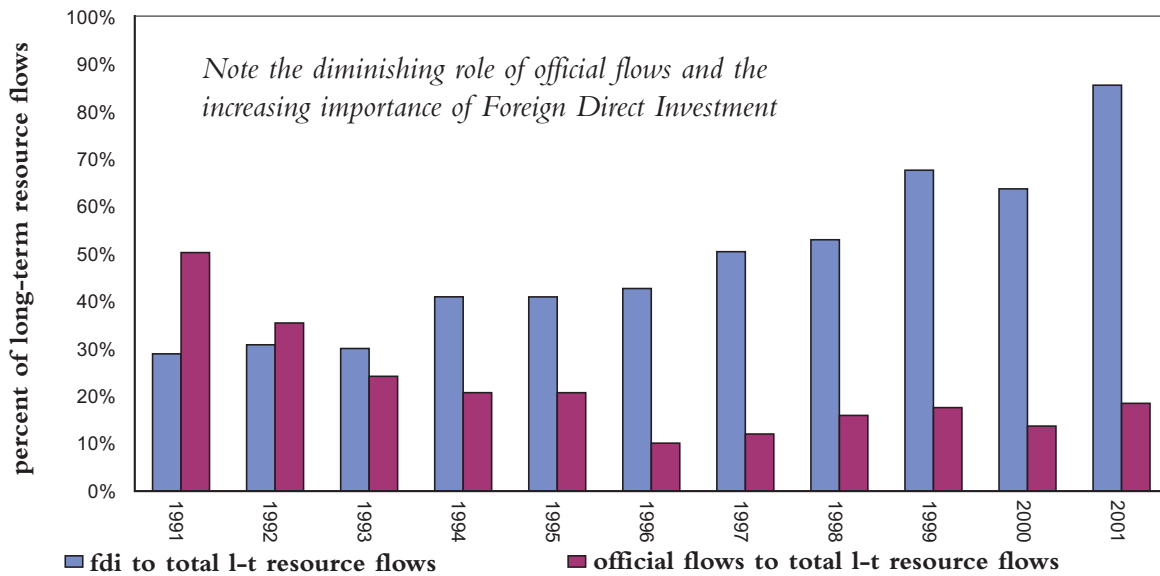


Figure 2: FDI vs Official Flows: Percent of Total Long-Term Resource Flows

The relative stability of foreign direct investment is more discernible when presented graphically, particularly when compared to capital market flows (the total of *debt flows*—bond issues, bank lending, and other debt-like instruments, and *equity flows*—the shares of foreign firms). As Figure 3 illustrates, even as the investment and especially the commercial bankers retreated from emerging markets, FDI forged ahead.

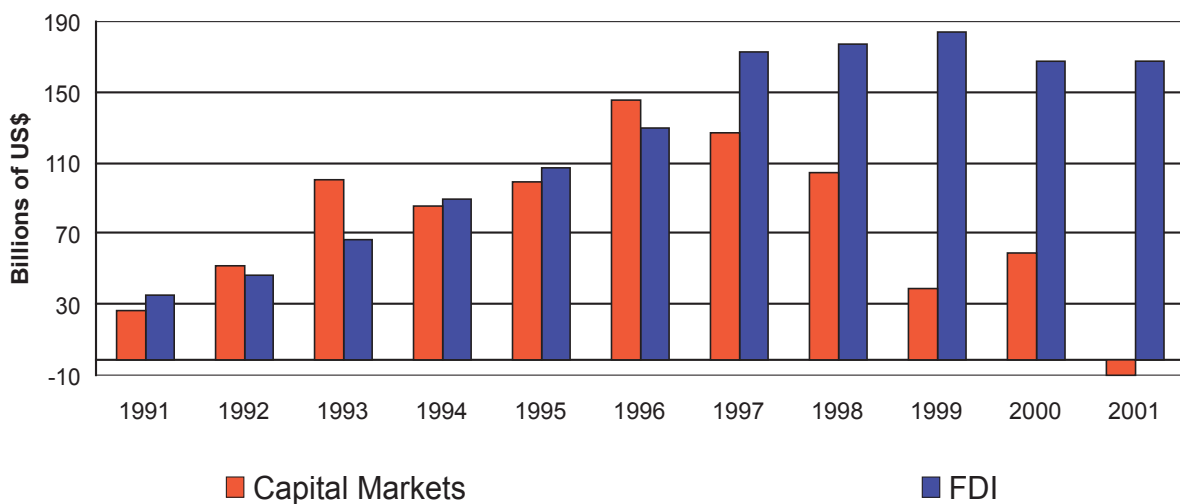


Figure 3: Capital Markets vs. FDI

Further evidence on this point is presented in Table 2 below:

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Debt flows	18.8	38.2	50.0	51.2	63.3	96.5	98.1	89.4	5.6	8.2	-26.8
Bank lending	5.0	16.3	4.1	9.3	30.9	32.2	45.6	51.9	-23.3	-6.1	-32.3
Bond financing	11.0	11.1	36.7	38.1	30.7	62.3	49.6	40.9	29.5	16.9	9.5
Other	2.9	10.8	9.2	3.7	1.7	2.1	2.9	-3.4	-0.5	-2.5	-4.0

Table 2: Debt Flow Details

Note that the collapse in debt finance is largely due to the exit of commercial banks from the market, beginning in 1999. Figure 3 provides a full breakdown of the capital market flows. From this chart it is clear that equity has had limited impact and tends to be somewhat volatile.

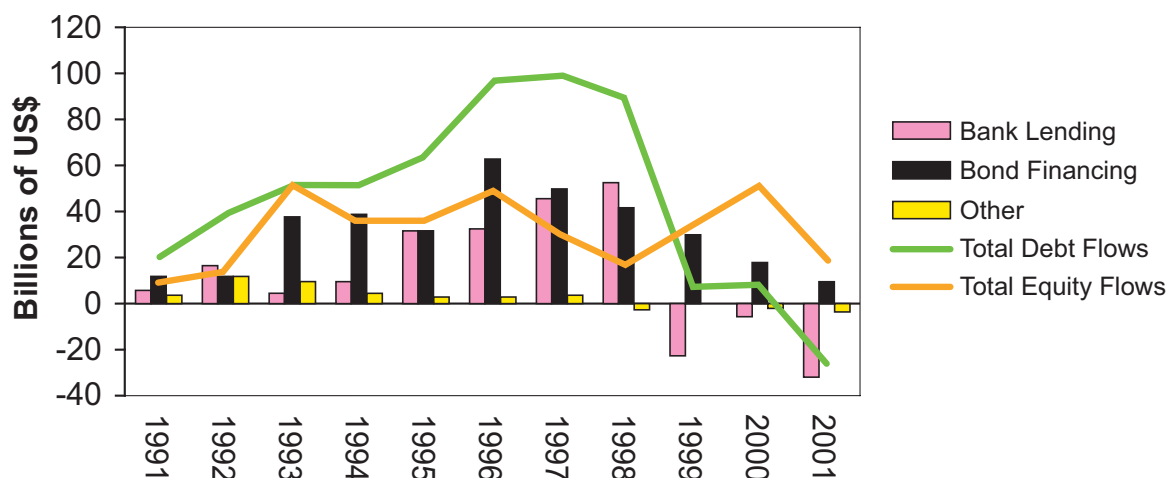


Figure 3 Capital Markets - Detail

Background

Foreign direct investment can be considered an instrument of international aid whenever the investor would not have entered into the developing country without some form of assistance, such as concessional loans or special government guarantees. The country risk involved in investing in many developing nations is often too high for profit-maximizing foreign businesses. Development agencies provide assistance/incentives to encourage investors because there are positive externalities and long-run economic gains that may accrue to the recipient country.²

The benefit of foreign direct investment (FDI) for developing economies is well developed in the economics literature. Under the right set of initial conditions (ex. appropriate host-country policies and a minimum level of development), countries can expect to reap the following benefits from FDI:

- technology transfer,
- human capital formation,
- international trade integration,
- a more competitive business environment,
- enterprise development.

²This is one aspect of an increasingly popular topic in development assistance, referred to as “additionality”, which we discuss further in Chapter Three.

Each of these should contribute to economic growth, the most important tool for poverty alleviation. Beyond the economic benefits, FDI is also likely to improve environmental and social conditions in the host country by transferring “cleaner” technologies and more socially-responsible corporate governance practice.

In a recent study, the World Bank argued that FDI is a key ingredient for successful economic growth and poverty reduction in developing countries. FDI enables the rapid and efficient transfer and adoption of “best practices” across borders, translating these transfers into growth. The study argues that as “growth is the single-most important factor affecting poverty reduction, FDI is central to achieving” poverty reduction. It goes on to argue that beyond promoting growth, FDI also has strong productivity spillovers for domestic firms (although these spillovers are not usually experienced in enclave sectors like mining); helps reduce adverse shocks to the poor resulting from financial instability; helps improve corporate governance relative to other forms of promoting private sector investment FDI; helps improve environmental and labor standards because of the corporations’ reputations in the markets; and generates taxes that support the development of a safety net for the poor (Klein et al 2001).

There are some preconditions that must exist for FDI to be successful: an even and competitive playing field for foreign firms vis-à-vis domestic ones; existence of domestic actors capable of exploiting the benefits of FDI and related technology transfers; development of tougher environmental and other standards by host governments; and prudent management of windfall gains from natural resources. The authors of the World Bank study noted that

FDI is no panacea ... FDI will not automatically reduce inequality. FDI will also not deal with all dimensions of poverty. **It will mainly promote growth and thereby reduce income poverty.** However, there appear to be few other basic policies that promise to do systematically more for improving the material well-being of the poor. The key alternative approaches that might direct more of the fruits of growth to the poor are government-led programs that improve social safety nets and explicitly redistribute assets and income. But these are not alternatives to sensible growth-oriented policies. These are complements.

Why FDI Matters - The Theory

Conventional wisdom among most economists is that if a country engages in capital spending, growth will surely follow.³ Countries engaging in aggressive capital spending programs should enjoy “better” growth than those that do not (up to the point of diminishing returns, of course).

Although few theoretical growth models make a clear distinction between private and public investment, there is a growing consensus that, *at the margin and in most countries*, private investment is more efficient and productive than public investment.⁴ Research exploring the roles of private and public investment in the growth process of developing countries has progressed, yet the number of studies on this topic is still somewhat limited. Using relatively small sample sizes and limited time series, a number of studies have concluded that private investment (of which FDI is a subset) has a larger positive impact on growth than public investment, among them Khan and Reinhart (1990), Coutinho and Gallo (1991), and Serven and Solimano (1990).

³See Barro (1989, 1991), De Gregorio (1991), Fischer (1991), Ghura (1995), Ghura and Goodwin (2000), Ghura and Hadjimichael (1995), Khan and Kumar (1993), Khan and Reinhart (1990), Ojo and Oshikoya (1995), Moudud (2000), Podrecca and Carmeci (2001), Savvides (1995), among others.

⁴Serven and Solimano (1992) provide an overview of theories and empirics of investment behavior in developing economies.

Khan and Kumar (1997) expand the country coverage over previous works and examine a relatively long time period, 1970-1990. The authors find that private and public investment have a statistically significant positive association with growth. The magnitude differs considerably, with private investment having a far stronger effect than public investment. The estimated coefficient on private investment implies that a one percent higher average private investment to GDP in the 1970-90 period was associated with an increase of four-tenths percent in the rate of per capita growth.

Bouton and Sumlinki (2000) confirmed Khan and Kumar's (1997) results but covered a longer period and found an even larger coefficient on private investment and smaller coefficient on public investment. Everhart and Sumlinski (2001) extend these findings with a more robust econometric review, utilizing a longer time series and broader cross-country sample.

In summary, the literature is converging to the consensus that private investment is relatively more important than public investment. Thus, any development assistance that targets private investment, necessarily fosters economic growth on a more effective basis than merely assisting the governments of emerging markets (typically the purview of the multilaterals).

Winners and Losers in the Race For FDI (and why)

A functioning private sector requires the rule of law; enforcement of property rights and contracts; an independent, strong judiciary with transparent and effective bankruptcy procedures; transparent tax systems; effective bank supervision; and the strict enforcement of bank prudential regulations. These are the hallmarks of good governance. Fostering such an environment will not only help reduce corruption, but also stimulate saving and investment, thereby laying the foundation for long-term growth.

Capital, as I say all the time, is a coward. It flees from corruption and bad policies, conflict and unpredictability. It goes where it is welcomed, where investors can be confident on the return on the resources they have put at risk.

As our Peruvian colleague Hernando de Soto has so aptly said, "The hidden architecture of sustainable development is the law." ... The rule of law that permits people to be free and to pursue their God-given destiny, and to reach and to search and to try harder for their country, for their family. The rule of law that attracts investment. The rule of law that makes investment safe. The rule of law that will make sure there is no corruption, that will make sure there is justice in a nation that is trying to develop.

Secretary of State Colin L. Powell

A predictable economic environment is crucial for private investors. When investors are assured that enterprise and investment create returns for the entrepreneur and investor, investment is more likely to ensue. An environment where corruption and bribery are prevalent creates a situation where investment returns are difficult to predict. This unstable economic environment has two primary effects on private investment decisions: expected returns are lowered due to increased costs, and the dispersion⁵ of outcomes is larger. Both serve to limit private investment, which is critical to long-run, sustainable economic development.

⁵Even corruption is manageable if it is predictable and the funds "invested" actually produce the desired result, see for example Johnson, Kaufmann, McMillan, and Woodruff (2000). The May 24, 2002 Financial Times reported the results of a survey indicating that the satisfaction rate from bribing in Russia is extremely high. In only two per cent of cases, people said, had they given bribes and failed to get the agreed upon consideration. This 98 percent success rate makes bribery, according to one respondent, a "very efficient and dependable market... the most efficient services market in our country."

The Host country investment climate is undoubtedly an important determinant of FDI flows to a developing country. Kaufman, Kraay, and Zoido-Lobaton (2000) show that proxy measures for the rule of law are significantly related to the level of FDI inflows. According to this study, increasing the rule of law by one standard deviation (for example, from the level of Turkey to that of Chile) FDI inflows might rise by 40 percent. According to the World Bank's *Global Economic Prospects 2003*, countries that have strong rankings for regulatory quality, government effectiveness, or political instability consistently received more than half of all the FDI to developing countries.

Table 3: Top 10 Recipient Countries of FDI Flows, 1990s

1.	China ⁶	6.	Chile
2.	Brazil	7.	Malaysia
3.	Mexico	8.	Korea
4.	Argentina	9.	Thailand
5.	Poland	10.	Venezuela

Throughout the 1990s the share of total emerging market FDI garnered by the top ten recipient countries has never dropped below 64 percent. Size of the recipient economy is responsible for some of this phenomenon, as six of these ten are also the largest emerging market economies as well.

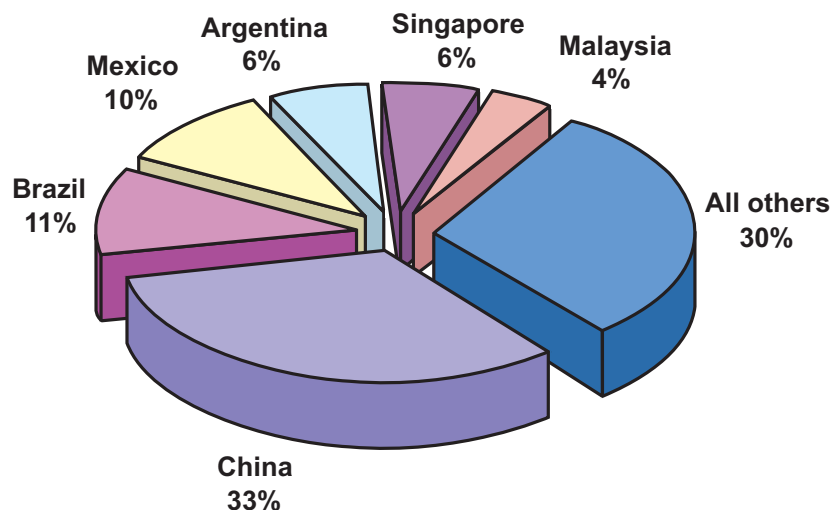


Figure 4: Emerging Market FDI By Country, 1970-2000

As Table 4 illustrates, when the data are broken down by region and across selected time periods, a number of useful insights are revealed. As would be expected, the *developed* countries absorb the bulk of the capital, typically between two-thirds and four-fifths of the available flows (it is important to note that the US current account deficit alone typically captures more than the entire amount of FDI flowing to emerging markets each year). Perhaps the most disturbing aspect of the country and regional analyses is the paucity of capital flowing to Africa, a region that many economists would argue may benefit the most from investment. Likewise, the least developed countries (LDCs) are receiving about half their 1991 flows.

⁶A number of studies have suggested that 25% or more of China's FDI flows are "round-trips" designed to take advantage of the favored status enjoyed by foreign investors (Lardy 1995). In addition, governments tend to impose exchange restrictions on domestic investors before foreign investors (Gunter 1996). Both of these motives lend credence to the notion that China's FDI figures may be somewhat inflated.

Region	1986-1990	1991-1992	1993-1998	1999-2000	2001
Developed Countries	82.4	66.5	61.2	80	68.4
Western Europe	38.4	46	33.7	51.9	45.7
European Union	36.2	45.3	32.1	50.2	43.9
Japan	0.2	1.2	0.3	0.8	0.8
United States	34.6	12.7	21.7	22.6	16.9
Developing Countries	17.5	31.2	35.3	17.9	27.9
Africa	1.8	2.2	1.8	0.8	2.3
Latin America/Caribbean	5	11.7	12.3	7.9	11.6
Asia and the Pacific	0.6	17.4	21.2	9.2	13.9
Central and Eastern Europe	0.1	2.2	3.5	2	3.7
LDCs	0.4	1.1	0.6	0.4	0.5

Source: *World Investment Report 2002*

Table 4: Distribution Of World FDI Inflows, 1986-2001
(selected sub-periods, percentages)

Regional Breakdown of Emerging Market FDI (1990-1999)

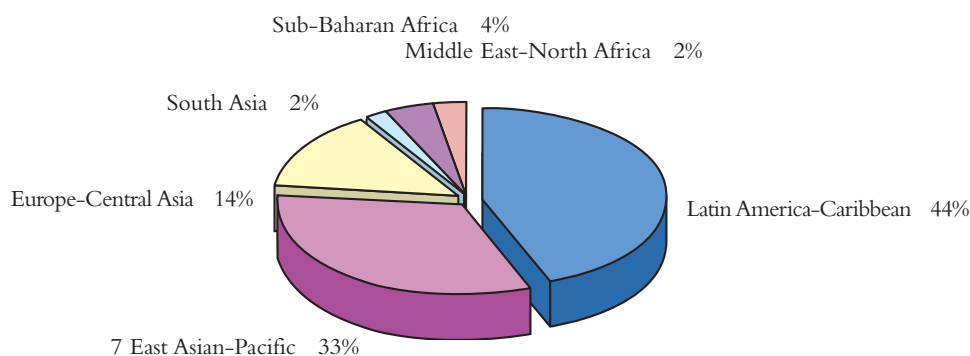


Figure 5: Emerging Market FDI By Region, 1990-1999

As we review the flows to various countries and regions, a number of difficult questions arise. Study after study suggests that effectiveness of the regulatory regime, macroeconomic stability, rule of law, and corruption are significant determinants of the location of foreign investment. Stein and Daude (2002) and Everhart and Sumlinski (2001) suggest that corruption's impact appears to be particularly deleterious. Box 1 (page 11) discusses some of the implications of the impact of corruption.

Box 1: Corruption And Its Impact On Private Investment

Why do we care about the impact of corruption? Our overarching concern is the potential impact of corruption on investment, private investment in particular, and its relationship to economic growth. Economic growth is surely the path out of poverty — whatever OPIC can do to assist serves to increase OPIC's impact on emerging market development.

Policymakers should also be concerned about the impact of corruption because of its impact on revenue and ultimately on a government's bottom line. The Financial Times dated May 24, 2002 reported the results of a survey in Russia indicating that private citizens pay at least \$2.8 billion a year in bribes, and businesses pay about \$33 billion. Those figures are, **respectively, roughly half of what the government collects in income tax from individuals, and almost equal to what collects in taxes from businesses.** If it can be assumed that those interviewed — and especially the business people — would understate their own propensity to bribe, then Russians could easily pay more in bribes than they do in taxes.

The U.S. Foreign Corrupt Practices Act of 1977 made it illegal for U.S. firms to bribe foreign government officials. Developed in 1997 and implemented in February 1999, OECD member countries signed a convention also criminalizing bribery of foreign officials by member country firms. Tax deductibility aside, weak (or absent) penalties and lax enforcement in bribe-receiving economies create an environment where allocating resources to their highest valued uses is unlikely. Undoubtedly, bribes skew judgment.

Research on corruption has expanded in recent years, yet work investigating its impact on private investment is still in its infancy. Mauro (1995, 1996) finds that an aggregate institutional indicator, a "corruption indicator," is negatively associated with aggregate investment in his sample of countries. Mo (2001) also finds that corruption reduces the share of investment in his sample of but 46 countries. Brunetti, Kisunko and Weder (1997) present results from a survey of entrepreneurs that suggests perceived reliability of the judiciary, government instability, and corruption influence cross-country differences in aggregate investment. Brunetti and Weder (1997) find that a lack of rule of law, high corruption and real exchange rate distortions are the most detrimental for investment.

A number of recent studies have examined the impact of the business environment on investment. Pfeffermann, Kisunko, and Sumlinski (1999) investigate the link between private investment and perceived business obstacles in developing countries, obstacles such as corruption, unpredictability of the judiciary, onerous regulations for starting a business, tax and labor regulations, and others. Countries where these obstacles were perceived to be less problematic had higher levels of private investment.

A 2001 report by PriceWaterhouseCoopers develops a new barometer of the business environment: the "opacity index." Opacity is defined as "the lack of clear, accurate, formal, easily discernible, and widely accepted practices in the broad arena where business, finance, and government meet" (quote from website, March 5, 2001). This report estimates the adverse effects of opacity on the cost and availability of capital in thirty-five countries. Not surprisingly, those countries where "opacity" is a problem pay a risk premium when they borrow from abroad or domestically when issuing bonds.

Bottom Line: Corruption is expensive, in absolute terms and in terms of foregone opportunities. Private investors are smart and direct their capital where the returns are more likely to accrue to the owners of the capital. It's that simple.

Conclusions

OPIC's need to refocus was driven by both theoretical and market fundamentals. As the market has changed, so too, has OPIC evolved.

Key findings of this chapter:

- official flows are ½ their 1991 levels
- FDI now dwarfs other sources of emerging market finance
- FDI tends to be far more reliable, especially when compared to other flows
- banks retrench rapidly
- bond financing now the dominant source of debt finance
- host country business climate is crucial to attracting capital flows

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CHAPTER TWO: THE IMPACT OF DEVELOPMENT

The Foreign Assistance Act states that OPIC's purpose is to "mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed friendly countries and areas, thereby complementing the development assistance objectives of the United States." Over the past thirty years of involvement with foreign direct investment in developing countries, OPIC has accumulated considerable experience in dealing with issues of U.S. private sector participation abroad and its effects on host countries. On the strength of that experience, the time has come for OPIC to move towards a more explicit policy for assessing the departmental impacts of its investments and activities.

This chapter aims to articulate a systematic framework that will help to demonstrate the impact that OPIC makes towards development. The intention of this effort is to refocus OPIC on its traditional role of facilitating development, while ensuring that the project evaluation process does not overburden the agency's clients.

Current Practice

OPIC is required by statute to give preferential consideration to investments in developing countries with low per capita income, and to limit agency activities in developing countries with relatively high per capita income. OPIC programs are intended to further the economic and social development of friendly developing countries, including support of economic reform and democratization in emerging market economies. The primacy of OPIC's developmental purposes were established in OPIC's original authorizing legislation and has since been reaffirmed by Congress.

In order to ensure that OPIC maximizes its efforts in complementing U.S. foreign assistance objectives and in fulfilling its developmental mission, projects supported by the Agency must meet a high developmental standard. Currently, through OPIC's project review process, direct and indirect (both upstream and downstream) effects are measured and identified with sound quantitative and qualitative data. The developmental effects measured by OPIC are summarized in Box 2 (page 15).

Development Impact Profile (DIP)

The Development Impact Profile (DIP) outlines the expected developmental effects of a proposed project. Each DIP consists of brief, cogent descriptions of the developmental effects of the project. The DIP addresses such issues as the project's net impact on local employment, stimulation of local enterprises to supply products and services to the project, transfer of technology and basic business knowledge and skills, project contribution to host country revenues, and the expected effect of the project on the host country's foreign exchange position.

Box 2: Development indicators*Quantitative Measures*

Employment Generation: Number of jobs directly created as a result of the project.

Taxes and Duties Paid: Government revenues generated in the forms of taxes and duties as a result of the project.

Exports Generated: Revenue generated as a result of project output being an export good or service.

Local Enterprise Stimulation: Indirect generation of employment, procurement from host country, anecdotal information about local suppliers to projects including farmers, contractors, legal services, etc.

Catalyst for Foreign Direct Investment: Quantitative information on loan, equity, and insured amounts. This provides information on direct OPIC assistance, as well as OPIC's catalytic role in leveraging additional financing.

Increased Wages: Better pay opportunities provided by the project. This provides information about the quality of the jobs created.

Qualitative Measures

Investment in Human Capital: Job-related training and other educational opportunities offered by the sponsor of the project.

Skills and Technology Transfer: The level and magnitude of technical knowledge transfer and importation of innovative technologies to the host country as a result of the project.

Infrastructure Development: Evidence of infrastructure development as both a direct and indirect impact of projects. Direct benefits can be derived through power, telecommunications, pipeline, real estate, and tourism projects. Indirect benefits can be derived via projects that build roads, supply excess power to local communities, etc.

Lower Local Prices and Improve Product and Service Quality: Evidence showing the project's impact in improving customer service and increasing efficiency through competition.

Improved Business Practices: Evidence showing the project's impact in improving management, accounting, and transparency of project companies.

Economic Diversification: The project's role in encouraging or facilitating economic diversification.

Medical Services or Clinic: Health and medical benefits to workers, such as on-site clinics and some support for local clinics.

Meals: Employee dietary support, such as meals during working days. Additional benefits include take-home food for employees.

Good Corporate Citizens: The project's active role in community support activities, such as local schools, charities, sports, assistance to the disabled, and other activities.

Project Monitoring

OPIC is required by statute to monitor the *actual* effects of projects assisted by the agency. To confirm project estimates, OPIC monitors the actual economic impact of every project from its inception until the conclusion of the investment. Using modern sampling theory, OPIC randomly selects the projects that staff will site-monitor during a three-year period. In addition to randomly selected projects, all investments considered to be economically or environmentally sensitive are also visited. All site-visited projects are evaluated for their effects on the host country economies and employment, their environmental impact, and conformance with internationally recognized worker rights standards. In addition to the site-monitoring program, OPIC operates a “Self Monitoring” system in which each investor completes an annual questionnaire reporting on the project’s development impact.

New & Expanded Methodology

A research exercise was conducted by OPIC’s economic analysis group to explore the experience and practices of other U.S. and multilateral agencies, including USAID, the World Bank’s IFC and MIGA, and the Asian Development Bank, within the context of development impact assessment. This exercise has led to the identification of a proposed core list of indicators that we consider to constitute the pillars of private sector-led development. Building upon the developmental measures that comprise OPIC’s current project review process listed in Box 2 (page 15), this revised list of indicators both prioritizes our current development measures and broadens the scope of OPIC’s overall development impact analysis. In particular, scoring proposed investments against these key indicators will allow OPIC to distinguish between projects that are highly developmental versus those that are minimally developmental.

Carrying out the new methodology will ensure that OPIC procedures reflect the evolution in research and findings about the impact of foreign direct investment (FDI) on development. The older model of the contribution of foreign direct investment focused almost exclusively on international companies as providers of capital (the scarce resource in developing countries) that could put unskilled labor (the abundant resource in developing countries) to work, and pay taxes to the host government in the process. The current development impact assessment practice — focusing on amounts of capital, numbers of jobs, taxes, and balance of payments — appears to reflect this older framework, leading to a rather anemic representation of development impact.

Newer models of FDI’s impact on development view international companies as providing “packages” of technology, management procedures, quality control methods, human resource practices, and marketing expertise that magnify the contribution that foreign firms bring to the growth and welfare of the recipient country. These foreign investor-supplied “packages” may have spillovers and externalities for the host country that extend well beyond purely economic effects.

Expanded Development Impact Profile

OPIC’s enhanced developmental methodology expands the current Development Impact Profile (DIP). The new process serves as a decision-making tool designed to both strengthen and simplify the process of evaluating OPIC projects. Its primary focus is to offer a structured, yet streamlined process for identifying key developmental benefits of OPIC projects. The main objective of the expanded DIP is to set a standard methodology for project priority setting at the policy level to better serve OPIC’s developmental mandate. OPIC recognizes the usefulness of standardization because it facilitates cross-country and cross-sector comparison and analysis, leads to better resource allocation, enhances accuracy in the determination of policy priorities, and complements OPIC’s streamlining effort.

Such a methodology plays more than a passive screening role. It also actively helps applicant companies to restructure their proposed projects by increasing their development intensity, thereby rendering them acceptable for OPIC support. In this way, the expanded DIP helps enhance the pool of high-development projects. Currently, these development measures are being applied to conduct *ex-ante* evaluation of OPIC-funded projects around the world, and will be extended to *ex-post* evaluation of previously approved OPIC projects as we gain experience in collecting better information about these indicators. The adoption of these priorities demonstrates that OPIC-supported investment flows are not solely driven by financial returns and corporate borrowers. Rather, projects are supported which will have significant developmental benefits for host countries and facilitate the participation of U.S. small businesses in international ventures, while maintaining OPIC's policy commitments, including environmental standards and workers' rights.

Primary Development Indicators

OPIC will measure and monitor three core outcomes as part of its strategic plan, specifically those related to human capacity building, private sector development, and leveraging impacts. The scope of these outcomes is explained below:

Human Capacity Building

The indicators measured for this outcome include job creation, job complexity (labor/technical/management), and the presence and nature of training. These indicators serve to measure the impact of OPIC projects in improving human capacity abroad. Employment generation can act as a stimulus for the economy and improve the general welfare of the population. OPIC will also measure the number of jobs per dollar invested to measure the effectiveness of a project in supporting employment. OPIC will recognize that the nature of employment in developing countries is often unskilled and therefore will value projects that create technical, professional or managerial positions. OPIC will also measure training as an indicator of building human capital.

Private Sector Development

A developing country's private sector is often overshadowed by a bloated public sector. Local ownership of project resources is encouraged to promote private sector growth and sustainable development. OPIC investments help stimulate the private sector by creating new markets and demand for products and services. Often OPIC-supported projects rely on existing local enterprises for the supply of raw materials and services. In some cases, new demand for goods and services may promote enterprise development or expansion in the host country. Furthermore, the increased demand for any particular good can lead to greater demand for complementary goods. Both have the effect of stimulating the local economy and benefiting local suppliers and vendors. Projects provide local enterprises with the tools necessary to become commercially viable and competitive, which is particularly significant for small and medium enterprises. Indicators for measuring this outcome include the local ownership stake in the project; whether the project involves or supports privatization; whether the project promotes or supports opportunities for individual property ownership (including home ownership); and whether the project benefits local small and medium enterprises.

Leveraging Impacts

One of OPIC's key statutory objectives is to play a catalytic role in leveraging private sector resources for development. While it is difficult to precisely measure the impact, quantitative and qualitative indicators of the extent of OPIC's complementary and leveraging impacts are frequently available. Indicators that will be used to measure OPIC's leveraging impact include non-OPIC project financing and equity, the project's complementary impact with respect to other development institutions, and the promotion of private-public partnerships through the involvement of local development banks, ministries and non-government organizations.

Additional Development Indicators

The following four development indicators are employed to capture additional dimensions of project impacts.

Social Effects (Good Corporate Citizenship)

OPIC-supported investments are equal employment opportunity projects and foster benefits for women in the work place, promoting the full participation of women at all project levels. This is important because in many developing countries, gender disparity is prevalent in the commercial workplace, resulting in low female economic participation rates. Furthermore, OPIC-supported projects often focus on rural, underdeveloped regions of a country to bring about greater economic equity among the population. Financing for small businesses and farmers is one of the many instruments used to promote development in poor regions. Community involvement and development are also important parts of OPIC-supported investments. Through corporate sponsorship, the local community benefits from social and cultural programs such as medical clinics, housing assistance, and community centers. General education programs contribute to the development of basic skills that lead to a more socially conscious and productive population. Many OPIC-supported projects also benefit the local work force by providing daily meals and transportation for employees during the workday. Environmental preservation is another criterion for OPIC-supported investments. The enhancement or restoration of the local environment benefits its inhabitants and encourages further investment.

Developmental Infrastructure Improvements

OPIC-supported projects improve three distinct host country infrastructure mechanisms: physical, financial, and social. The strengthening of infrastructure associated with OPIC-supported projects provides local individuals and enterprises the foundation to build upon and expand their business and economic activities. Projects that strengthen power, communication, and transportation infrastructures contribute to the physical improvement of the local economy and enhancement of work force productivity. Projects that develop financial structures (e.g., banking, capital markets, and insurance services) facilitate growth and economic improvements by helping to mobilize capital, directing money to investors from an array of sources. This channeling of resources stimulates local economic activity by offering investors a method of obtaining capital to invest in ventures that they would otherwise not be able to fund. OPIC-supported projects also provide access to education, nutrition, clean water, shelter, and health care. Achieving gains in these areas helps improve life expectancy, reduces infant mortality, ensures adequate physical development, and provides the education necessary for generations of future workers. The result is the enhancement of economic productivity and the strengthening of the country's societal fabric.

Macroeconomic & Institutional Impacts

Macroeconomic stability and strong institutions are benchmarks for a country's development. OPIC-supported investments take into account the level of economic development of the host country, specifically the GNP per capita. Projects are also evaluated based upon their fiscal impacts, as local governments are able to raise revenues that can be used for additional development initiatives through collection of taxes and duties associated with OPIC-supported projects. Revenues collected provides funding for enhancements in education, health services and infrastructure. Some governments offer tax holidays to encourage development in particular sectors of the economy. Good governance promotes transparency and accountability in the government, key ingredients to sustainable growth. The success of most investments often depends on the level of corruption in the government, the accountability of state officials, and the level of societal participation. A lack of good governance undermines many developmental efforts by encouraging the stripping away of capital allocated for development purposes, making it difficult to implement and complete programs effectively and discouraging potential future investment flows. OPIC-sponsored projects, therefore, often support projects invested in countries with a good track record on governance. OPIC-supported investments are also evaluated on the basis of whether they result from or cause institutional reform.

Technology & Knowledge Transfer

Technology and knowledge transfers from the U.S. to the local partner that result in the improvement of the local business' performance are common in OPIC-supported projects. These transfers include the dissemination of innovative management practices, marketing and distribution expertise, and new production technologies. These transfers often enable the development and introduction of products or services that are available for the first time in an emerging market. Technology transfers strengthen national capacities to develop locally appropriate technologies. OPIC-sponsored projects often result in lower local prices, benefiting consumers. OPIC-supported investments generally have foreign exchange impacts and can improve the balance of payments of developing countries by providing export opportunities. While the production from a project may replace some portion of the country's current imports, projects also use imported production inputs. In some cases, local nationals and businesses also receive payments in the form of dividends, return of capital, profits, royalties, fees, etc. for their contribution to the projects. In turn, these funds allow local entrepreneurs to expand their businesses and also seek new investment opportunities. OPIC-supported projects frequently involve an underdeveloped or nonexistent sector of the host country economy, allowing for economic diversification.

Expanded Monitoring Activities

OPIC employs standard monitoring procedures to review project commitments and to track the ongoing progress in fulfilling those commitments. OPIC's site monitoring process involves one-time visits to randomly selected projects and annual self-monitoring submissions by all projects. These procedures have been evaluated by outside experts and OPIC has 15 years of experience with the site-monitoring program and 10 years experience with the self-monitoring program. Through questionnaires and site-visits, OPIC gathers and verifies information provided by the investor regarding the original estimates of the development impact of the project. The changes that are currently being proposed do not impact the actual monitoring process. Instead, the changes incorporate new guidelines and pose new questions to the project sponsor in order to measure specific development impacts of OPIC projects and assess whether OPIC is fulfilling its goals. OPIC's new monitoring protocols will focus on:

- new technologies, quality control procedures, and business management innovations in the foreign affiliates supported by OPIC;
- number of host country supervisors, engineers, and managers in comparison to expatriates;
- wage levels in relation to minimum wages, alternative employers, and averages in the industry;
- gender issues such as nondiscrimination in wages, nonharassment policies, availability of day care, and access to supervisory positions;
- vendor development programs, local enterprise stimulation, and outsourcing of business services;
- new technologies, quality control procedures, and business management innovations transferred to local companies;
- the generation of competition in the sector (prices, service); on direct and indirect infrastructure development; on training programs and educational opportunities (perhaps in cooperation with local NGOs); and
- exemplary corporate governance and social responsibility.

Specifically, during monitoring OPIC now will track progress on original commitments in the outcome areas outlined above.

CHAPTER THREE: IMPORTANCE OF ADDITIONALITY

A key part of OPIC's mission is to add value by making possible transactions which would be impossible or unlikely without OPIC. This "additionality" is critical because without it, OPIC is simply crowding out private sector financing, insurance, and investment. Without additionality, OPIC is not expanding development by supporting unique investment projects.

But additionality is difficult to capture and measure because of the lack of information regarding the willingness of private investors to invest in emerging markets. Unlike U.S. markets where data and markets are deep, individual emerging economies are characterized by relatively few players and closely held transactions. As a result, information about the pricing and design of transactions are anecdotal at best.

Recognizing this limitation, OPIC is developing a relatively straightforward framework to focus its efforts. The goal of this framework is to help OPIC:

- decide *whether* to support a given project, given its additionality;
- show *how* to avoid overlap with the private sector;
- provide focus to distinguish between OPIC's contribution to making the project possible (additionality), and the project's impacts on the development, the environment, worker and human rights as well as foreign policy.

While no framework can perfectly predict whether the private sector would have supported a project, a reasonable framework would consider the risk of the country from the private market's perspective. As a result, OPIC considers the following questions:

- Does the private sector consider the country to be a "speculative" risk?
- Do OPIC's products and projects leave room for pure private alternatives?

These questions will guide several tests that OPIC intends to apply to each project and product.

"We must ensure that OPIC's projects are complementary, not competitive with the private sector."

Dr. Peter S. Watson
FY 2001 Annual Report

Additionality Indicators and Tests
OPIC Product Line

Rationale**OPIC OVERALL**

Is the country's sovereign rated Ba1/BB+ or worse?	Lower ratings are higher risks and so are likely to be additional.
Are the following indicators increasing or decreasing? <ol style="list-style-type: none"> 1. general risk aversion 2. country FDI 3. volatility of return on equity 	These are barometers of the private sector's willingness to accept the higher risks of investing overseas. As private willingness rises, additionality can be expected to decline.
Is private capacity, by itself, not enough to cover the specific project?	Capacity is frequently an issue with very large projects.
Is the project, or its sponsor, an SME under the IFC definition with a clear need for foreign capital?	Smaller projects are less likely to find foreign finance.

FINANCE

Do the tenors and pricing of OPIC's products meet or exceed those of: <ol style="list-style-type: none"> 1. Sovereign benchmarks? 2. Terms on comparable private debt? 	Sovereigns are a country's least risky borrowers, and so should have the most favorable terms in a given market.
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INSURANCE

Have Private insurers had the opportunity to insure the project?	Additionality is more likely when private industry has declined to cover.
In markets where private cover is available, do the pricing of OPIC's products leave room for private insurance in markets?	If OPIC and private coverages are comparable and available, then pricing is likely to be the key to additionality.

INVESTMENT FUNDS

Is the subproject in a country/sector with: <ol style="list-style-type: none"> 1. Volatile returns on equity? 2. Little or no history of foreign equity investment? 	These measures are an indicator of the difficulty that enterprises in emerging markets have in attracting foreign equity.
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CHAPTER FOUR: CASE STUDY: LIVING WATER

This chapter offers an example to illustrate how the application of OPIC's enhanced developmental methodology might be applied to an actual OPIC project.

WATER WELL DEVELOPMENT IN RURAL KENYA

BACKGROUND

The project involves a \$200,000 OPIC direct loan to Living Water International (LWI), a U.S. nonprofit organization, for the development of water wells in Kenya. The funds from this investment will enable LWI to double its production capacity to 40 wells per year. At the community level, this project aims to be financially viable and completely recover costs by charging fees for the water services.

ANALYSIS

Human Capacity Building

Job Creation: Prior to this investment, there were no formal employment opportunities available in the project area. The project is expected to create 9 permanent local jobs by the fifth year of the operations. This translates to an average of 30 new jobs created for every \$1,000,000 invested, which is a strong impact by OPIC's development standards.

Job Complexity: One-third of the project workforce will hold professional/technical (i.e., skilled) positions. While this proportion of skilled-to-unskilled labor offers some development impact, the proportion falls short of the OPIC goal that half or more positions will involve skilled labor.

Training: Notwithstanding the above, the training impact of the project is strong as Kenyan employees will receive training in the operation of water facilities. Employees will be trained to drill and maintain the water wells, pumps, and storage tanks, maintaining the wells free from contamination. In addition, LWI will pay for 80 percent of the cost of furthering the education of all project employees, as well as teach proper health and hygiene techniques to the communities that surround the wells.

Private Sector Development

Local Ownership Stake: The project meets OPIC's criteria for having a strong impact on local ownership. The project is wholly owned by local communities. Local villages will have a major voice in designing the water distribution system, thereby fostering local resource management.

Benefits to Small & Medium Enterprises (SME): OPIC considers the local communities involved in the project as qualifying SMEs, and thus their ownership of project resources results provides a strong benefit to small and medium enterprises.

Encouragement of Private Ownership: Given that all ownership of the water wells will be transferred to the local communities, the project fosters local private ownership.

Leveraging Impacts

Leveraging Other Investments: OPIC financing accounts for approximately two thirds of total project investment. Though OPIC's goal in this area is to provide no more than half of total project capital, the impact in this area is still substantial given that OPIC's financing leverages an equity contribution of one third of total project investment.

Complementing Other Development Institutions: As there are no development institutions other than OPIC involved in this project, the project does not demonstrate institutional complementarity.

Public-Private Partnerships: LWI has worked with the local government and community representatives to bring drinking water to rural Kenya. Thus, the project meets OPIC's criterion for having a strong impact on fostering public-private partnerships.

Social Effects

Benefits to Rural Region: Given its presence in a rural region of Kenya, this project meets OPIC's criterion of strong impact in benefiting particularly underdeveloped regions within developing countries.

Social Responsibility: The project will offer water at subsidized prices to its employees, as well as to churches, schools, hospitals, and orphanages. By extending these benefits to the local community, the project will have a strong impact in the area of social responsibility.

Environmental Preservation: This project will provide a secure supply of water for future generations through careful and sustainable use. As a result, the project will have a strong impact on preserving and protecting a natural resource.

Developmental Infrastructure Improvements

The benefits of this infrastructure project accrue to all segments of the local population, and thus distinguish this investment from projects that benefit only limited segments of the population.

Macroeconomic & Institutional Effects

Level of Economic Development: With one of the lowest GNP-per-capita ratios in the world, Kenya is in a category of countries for which OPIC is statutorily obligated to give particular priority.

Project Relationship to Institutional Reform: This project is aimed at demonstrating the viability of the new decentralized service delivery model, as well as assisting the Kenyan government in moving towards the revision of water resource development policies and encouraging greater involvement of stakeholders in water management and supply. The project has a strong impact in promoting local government reform in the water sector.

Fiscal Impacts: OPIC encourages a project tax burden that is fair: providing the local government with the means to support its social and infrastructural goals, while preserving a strong investment incentive. Because this project pays only a nominal level of taxes, the project's fiscal impact is untraceable.

Technology & Knowledge Transfer

Innovative Management Practices: To ensure project sustainability, local communities lead in making decisions about the identification, design, implementation, operation and maintenance of their water supply scheme. The devolution of resource management from the investor to the local community qualifies as an innovative management practice.

Marketing and Distribution Expertise: The project ensures the local delivery of resources and technical assistance so that wells can be effectively planned, maintained and locally managed. The project will place a strong emphasis on transferring expertise in marketing and distribution.

New Production Technologies: The project applies well-drilling and water-pumping technologies that are not widely known or used in Kenya or in many parts of the developing world. Consequently, the project has a strong role in introducing new technologies.

Lower Local Prices: By increasing the supply of clean water in rural Kenya, the project will reduce its cost. The project's impact will be particularly substantial because area residents will be offered one liter per day free of charge.

Foreign Exchange Earnings: This project does not involve export sales and therefore has no impact on foreign exchange earnings.

Economic Diversification: By providing a supply of water in a rural region of Kenya that is unaccustomed to such infrastructure, the project supports an economic sector that is essentially nonexistent in the local economy and thus makes a strong impact on economic diversification.

CONCLUSION

Given the developmental criteria outlined in Chapter 2, and the project characteristics highlighted in the above analysis, this project would qualify as *highly developmental* under OPIC's enhanced developmental standards.

APPENDIX: SELECTED PROJECTS SINCE REFOCUSING

The projects highlighted below demonstrate OPIC's prioritization of several broad categories of development, including housing, technology and health care as well as the targeting of specific regions, especially the former Soviet Union, Mexico and Africa. These projects also illustrate OPIC's new focus on development-oriented projects and the promotion of U.S. small businesses, while continuing to provide additionality in areas under-served by the private sector.

AFRICA

Living Water International (Kenya)

Living Water International (LWI) is a nondenominational Christian ministry committed to providing safe drinking water to communities in developing countries. It completed over 106 wells in 2001 and is currently working in twelve countries. A serious shortage of drinking water in Kenya means that LWI's efforts are meeting the most basic needs of the communities in which it works. OPIC's \$200,000 direct loan to the non-profit's affiliate, Living Water Kenya, will enable the drilling of 20 water wells a year. In the past decade, Living Water has drilled 125 water wells in Kenya, leading to a drop in the rate of disease from 95% to 5% in communities where LWI operates. Local citizens are trained to maintain the wells, pumps and storage tanks — and they learn about basic hygiene and food preparation to prevent contamination of the wells. Water committees, generally made up of women, are encouraged to sell the water for about a penny a gallon to raise funds for maintenance and to give people a sense of ownership in the wells.

Housing for HIV Inc. (South Africa)

Housing for HIV Inc. is a joint venture between New York-based Shared Interest, Inc. and South African-based Home Loan Guaranty Company. A \$250 million OPIC loan to this project will help to provide treatment for HIV-positive homeowners in South Africa, enabling them to keep their homes by guaranteeing banks against the risk of defaulted mortgage payments. The project has the potential to help at least 350,000 South Africans obtain new mortgages and keep their homes. Under the project, should a homeowner miss a mortgage payment and be found to be HIV-positive, the treatment program will be initiated for the affected individual. Because banks are reluctant to make new housing loans to low-income borrowers with HIV/AIDS, this innovative project will provide HIV treatment and a guaranty to keep homes in homeowners' hands.

ASIA

Solar Electric Light Company (Sri Lanka)

The Solar Electric Light Company, Inc. (SELCO) is a U.S. small business founded in 1997 to provide solar electric light and power for the developing world. SELCO has operations in India, Vietnam, China, and Sri Lanka, and plans to expand into other countries to meet the rapidly growing demand for solar electricity. In Sri Lanka, an estimated 53 percent of the population (2 million households) lacks access to grid electricity. With the assistance of an OPIC loan of \$100,000, SELCO will finance a \$200,000 project that will provide solar electric systems for homes and businesses. Solar power will not only serve as a primary source of environmentally friendly electrical power for residential use, but will also boost local employment and productivity by allowing businesses to continue operating outside of daylight hours. These enterprises will also benefit from the ability to make use of technology that relies on electricity, thus enhancing their ability to deliver goods and services to their communities.

THE AMERICAS

Flama de Oro, S.A. (Guatemala)

The Oriflama Coffee Farm, operated and owned by U.S. citizen Walter Adams and his family, has been producing high-quality coffee in Guatemala for nearly 80 years, with a particular emphasis on environmental sustainability and commitment to improving the lives of its workers. A \$300,000 OPIC loan will enable Oriflama to undertake a \$520,000 improvement and expansion of its operations. The Oriflama Coffee Farm will switch to a new, improved variety of high-quality arabica coffee, a move that is expected to increase revenues and support employment for approximately 200 workers in the local economy during the next five years. In demonstration of its high-quality product, Oriflama received international recognition for its excellent coffee in the 2001 Cup of Excellence Competition. The business is environmentally friendly, using an innovative recycling and conservation process for water used in growing and cleaning the coffee and the parchment used to dry it. It also uses cultivation techniques that support habitat for resident and migratory birds, amphibians and other wildlife. Oriflama treats workers and their families with dignity, providing training and supporting medical services for workers, making sure they are registered for Guatemalan social security, and providing transportation to school for their children.

EUROPE

Cooperative Housing Foundation (Romania)

The Cooperative Housing Foundation is a nonprofit international development organization headquartered in Silver Spring, Maryland that is committed to improving people's lives through development of community, habitat and finance. OPIC supported this mission with a \$2.5 million loan to implement a community-based program in Romania. While Romania has made tremendous economic progress since the Cold War, the benefits of an expanding and stable economy have not filtered down to many of the country's small or family owned businesses. The CHF program addresses this concern by establishing a community-based loan program in seven western Romanian counties. The organization's local affiliate, CHF/Romania, will provide local banks with technical training and risk sharing to improve their lending to micro, small, and medium businesses, making them more competitive with their regional counterparts.

Russia Dairy Farms, Inc. (Russia)

Russian Dairy Farms, Inc. of Minneapolis, Minnesota is supporting Dmitrov Dairy Farms in an effort to reverse a 50 percent drop in the cow population in Russia's Dmitrov region since 1991. This decline has meant that the region's dairy industry was unable to assure a reliable supply of raw milk to processors in Moscow and the Moscow Oblast. With a \$1.2 million OPIC loan, Dmitrov Dairy Farms will help reverse the industry's decline with what is expected to be one of the most modern and efficient dairy farms in all of Russia. When completed in 2004, the 500-cow farm will ship 12 tons of milk daily and sell approximately 200 bull calves a year to local beef producers. Introducing state-of-the-art American dairy production technology, modern dairy management practices, and high-quality genetics to the Russian dairy industry, the project will set the country's standard of performance. As part of the region's Integrated Dairy Improvement Project, Dmitrov Dairy Farms will partner with the local agricultural technical college to train future professional dairy managers and specialists, and will develop an extension program to share new production technology and processes with local dairy producers.

Contacting OPIC

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