BUDGET REQUEST
FISCAL YEAR 2007

An Agency of the U.S. Government
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Overseas Private Investment Corporation

Congressional Budget Justification
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Executive Summary

OPIC helps mobilize and facilitate the participation of US private capital and skills in the economic growth of developing and emerging market countries. It does so in concert with American foreign policy goals and economic development objectives.

Through the use of targeted loans, guarantees, and political risk insurance, OPIC efficiently aligns its programs with projects that are likely to stimulate private sector, market-driven economic growth. Moreover, because OPIC can act much faster than most national and multi-national governmental organizations, it is able to respond to the demands of the marketplace in a timely fashion and to leverage each dollar of budget authority many times over.

Consistent with the Administration's budget guidance, OPIC over the last few years has made certain that it focuses on companies and countries that cannot access private financing or insurance. As a consequence, OPIC's programs are truly complementary, not competitive, with the private market.

OPIC has also devoted substantial attention to increasing the number of small and medium-sized enterprises (SME's) it supports. In FY 2005, 82% of the new projects undertaken were with small businesses. This has resulted in a sizeable increase in the number of projects. While this higher flow of projects has fueled a very positive impact on the economic growth and development of host countries, the extensive due diligence and analysis required of each project has put a serious strain on the existing resources of the agency.

OPIC realigned its internal resources to enhance efficiency, but this has not been sufficient to meet the simultaneous challenges of growth in OPIC's exposure portfolio, in particular in the labor-intensive small business and foreign policy areas, as well as ongoing technology efforts. In this environment, OPIC's static budget over the last two years has progressively undermined its ability to meet market demand for OPIC programs, to prudently review and manage projects, and to replace outdated technology. The President's Budget for FY 2007 therefore requests the following appropriations be funded from OPIC's earnings:

- $ 45.053 million to administer OPIC's programs
- $ 20.035 million in credit subsidy, available for three years, and continued transfer authority from Title II bilateral assistance accounts

Introduction

OPIC's mission is to promote development related foreign policy goals by supporting private investment in developing countries and transition economies, and the associated transfer of technology and skills. Support of private foreign investment is a cost effective way to promote development because it leverages private sector resources and it subjects all investments to a rigorous and unforgiving test: the market test of efficiency. The market is the best mechanism by which investments in economic activity are capable of generating economic growth, and therefore development. When the policy environment is right in a developing country, private investment aligns private and social goals. Since OPIC uses the market as a guide to which projects are sustainable, OPIC clearly aligns federal resources with the best information in the market to support economic growth and jobs.

OPIC can support private investment led growth by reducing the risks faced by private investors. OPIC reduces private investor risks through political risk insurance, guarantees of loans, or direct lending. Its programs can be of greatest help in countries that have the right policies and institutions in place, but lack a long track record of political and economic stability that would instill investor confidence. Countries in humanitarian crisis or with a limited government structure require extensive economic assistance in the form of grants and other direct aid before private investment, and therefore OPIC programs can become the major driver of growth. On the other end of the spectrum, developing countries with the right policies and a good track record can attract private investment without government assistance. In such countries, OPIC's role in supporting foreign private investment is more limited to highly developmental projects that pose higher risks than the private sector is willing to accept on its own.

Experience over the past 50 years has shown that development assistance and private sector investment is crucial to stimulating sustainable economic growth. As the World Bank observed:

> "Most effective approaches to development will be led by the private sector, but with effective government to provide the governance framework, facilitation or provision of physical infrastructure, human capital investments, and social cohesion necessary for growth and poverty reduction. The fundamental challenge in stimulating economic growth is to create the right economic incentives that will encourage local economic actors to build capital and to manage it efficiently."
>
> Goldin, Rodgers, and Stern. 2002. "*The Role and Effectiveness of Development Assistance: Lessons from World Bank Experience.*" World Bank, Washington D.C.

This testifies to the opportunities that could come from good coordination between OPIC's programs and the grant-based programs of USAID and the Millennium Challenge Corporation (MCC), and the lending activities of the multilateral development banks (MDB's). In each of these cases, grants or lending may pave the way for investment by stimulating policy reforms, by improving basic governance, by establishing a platform of basic social services, or by supporting the purchase of capital equipment. By the same token, OPIC can help the recipient countries to derive immediate economic benefits from the aid-supported policy reforms and institution building efforts by supporting investments that build on the reforms. Visible economic gains create the best time-proven path to encouraging countries to undertake further reforms that may prove politically difficult.

OPIC proposes to build on its current programs by pursuing several new approaches to promoting U.S. development and foreign policy objectives in FY 2007:

> *Foreign Policy:* OPIC will develop a pipeline of projects in countries of foreign policy importance to the United States. OPIC will work through the programming process to align project development pipelines with the transfer process.
>
> *Develop new projects by working with USAID, MCC, EXIM, and other agencies at the project level*: OPIC will work with other agencies to identify logical follow-ups to USAID, MCC, and other development bank funded grant projects. OPIC could help to stimulate interest by potential investors by closely following the work of other agencies and development banks.

FY 2007 Request

OPIC seeks resources to pursue the ideas outlined in the introduction, and to credibly support both new projects and the existing portfolio. OPIC therefore requests the following appropriations for FY 2007 from its own resources:

- $45.053 million to support OPIC program administration
- $20.035 million in credit subsidy funding

The proposed increase to OPIC's administrative budget is necessary to

- Sustain the prudent management of OPIC's growing portfolio
- Continue OPIC's support of lending priorities
  - small and medium sized enterprises
  - foreign policy lending

Administrative Expenses

In FY 2007 OPIC is requesting a total of $45.053 million for administrative expenses. This request will support core administrative expenses, continued efforts on OPIC's critical technology projects, and implementation of a disaster recovery solution to support OPIC's continuity of operations plan. See table B-1 for a historical presentation of OPIC's administrative budget.

These resources will enable OPIC to:

- Improve portfolio quality on new transactions, and prudently manage recent growth in the portfolio
- Maintain high quality support for U.S. small businesses
- Coordinate development policy with other agencies and develop new initiatives
- Continue information technology efforts

Improve portfolio quality control

OMB Circular A-123 (2005) highlights three objectives for controls integral to OPIC's management of its assets, especially its credit reform and insurance programs: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations. Each of these objectives are supported by OPIC's personnel and technology.

OPIC's personnel and technology resources are strained under the growing number and complexity of exposures. It will be very difficult for OPIC to prudently process current or future transactions with the current resource base. In order to ensure adequate origination and oversight of OPIC's portfolio, OPIC must make a long-term resource commitment to preserving asset quality. This growth in portfolio without a corresponding personnel and technology strategy to supervise the portfolio raises the risks of losses.

As of September 30, 2005, OPIC's active portfolio numbered 522 insurance, finance and funds projects, not including subprojects and hundreds of fund investments. This is an annual increase of +23.8 % and +9.2 % in 2004 and 2005 respectively – all within an essentially static budget.

Table 1 Portfolio Statistics for Fiscal Years 2003-2005

	2003		2004		2005	
	Number	Volume ($,billions)	Number	Volume ($,billions)	Number	Volume ($,billions)
Insurance	232	6.89	257	6.25	242	4.51
Finance	154	6.37	221	7.71	280	8.42
Total	386	13.26	478	13.96	522	12.93
Year on Year			+23.8%	+5.3%	+9.2 %	-7.4%

Maintain high quality support of small business transactions

OPIC's focus on small and medium enterprise (SME) transactions has resulted in much higher project volumes. SME projects increased by 104 % from 48 in FY 2003 to 98 in FY 2004. OPIC completed 83 small business projects in FY 2005, and forecasts continued demand in FY 2006. OPIC has now reached its small business capacity under current staffing levels. Furthermore, sustaining the current level of SME activity with present resources will be very difficult because the sheer volume has put considerable strain on the agency.

In FY 2003, OPIC realigned its resources to focus on SME transactions. However, this shift did not adequately anticipate the resources needed to carry the increased draw on back-office resources such as accounting, monitoring, and technology. Since SME transactions are more labor intensive than large projects with financially sophisticated sponsors, the growth disproportionately strains OPIC resources.

Coordinate development policy with other agencies and develop new initiatives

Part of OPIC's strategy to maximize impact is to coordinate with other development institutions such as USAID, MCC, the World Bank, and other development finance institutions. In doing so, OPIC would assure greater alignment with the strategic approach of other grant and lending programs.

OPIC is working to:

- Expand policy-level dialogue and build relationships with other development institutions and think tanks devoted to development studies and practice
- Participate in interagency policy discussions involving private investment and development
- Develop forward-thinking, proactive strategies that support foreign policy and development mandates

Continue information technology efforts

OPIC's FY 2007 technology initiatives will continue the investments OPIC made in the deployment of software that integrates various fragmented records and business processes maintained by individual units. These initiatives are major, but not final steps to replace OPIC's legacy WANG based software with a modern data infrastructure.

In FY 2006, OPIC will also identify a disaster recovery host site that will enable it to meet Federal continuity of operation requirements and achieve economies of scale through remote access solutions.

Credit Funding Request

OPIC is requesting $20.035 million in credit subsidy resources for FY 2007 to enable OPIC to address riskier classes of transactions, in particular small and medium sized enterprise projects (SME's), and foreign policy lending. Combined with the transfer authority request, OPIC will seek to support SME's and more highly developmental projects.

For foreign policy reasons, OPIC has placed priority on developmental projects in Iraq, Pakistan, and Afghanistan; broadly consistent with the Administration's Middle East / North Africa emphasis. OPIC coordinates closely with the State Department and other agencies to ensure alignment with foreign policy.

Strategies, Goals, and Outcomes

The Government Performance and Results Act (GPRA) and the Program Assessment Rating Tool (PART) have helped OPIC in recent years to draw clearer alignment between OPIC's strategic goals and the ways in which it achieves those goals. OPIC's FY 2007 budget builds on these efforts by drawing a clearer connection between OPIC's program goals and resource request. In FY 2007, OPIC plans to continue to refine its focus on:

- Methodology for measuring development and additionality
- Systems for supporting small and medium sized enterprise transactions
- Aligning projects with administration foreign policy priorities

OPIC is committed to work closely with the Administration to continue the PART methodology to maximize OPIC's contribution to efficient support of development and foreign policy.

Measuring Development and Additionality

OPIC has established a Development Matrix that measures the contribution of OPIC-supported projects to economic development in its eligible countries. OPIC has identified 25 development parameters and objective criteria for calculating how an individual project contributes to development in each of these 25 areas. Each project is scored for its development contribution on the basis of these criteria, and management uses the resulting scores to determine whether OPIC should support a project.

Because of OPIC's relatively small size, this metric is used by managers and staff throughout the agency. For example, this means that the same development metric used by the Administration to evaluate OPIC's performance is the same metric used internally at OPIC. This enables OPIC to cleanly align its internal decisions with the metrics OPIC reports to its stakeholders.

OPIC has also established a process for assessing additionality. Additionality measures OPIC's value added: whether and to what extent OPIC's support is necessary for an investment to be implemented by its private sector sponsors. OPIC uses rigorous objective criteria such as country risk, sector risk, project size, country investment climate, and private sector capacity to determine additionality of OPIC support for particular projects. These criteria enable OPIC to identify countries, sectors and projects where the risk is too high for the private sector and the mitigation of risk by OPIC would likely result in additional investment flows.

For its insurance product, OPIC implemented a formal mechanism that verifies whether private sector political risk insurance is available for every OPIC project. Accordingly, private insurers have the opportunity to participate in virtually every OPIC insurance transaction above $5 million[1]. In other words, OPIC is able to either insure smaller projects that the private market does not want to insure, or partner with the private sector on larger or riskier transactions.

Supporting Small and Medium Sized Enterprise Transactions

OPIC's initiatives with regard to small and medium sized enterprises has yielded a substantial number of SME transactions beginning in FY 2004/2005. Much of this is the result of OPIC having focused human resources in these areas. OPIC will expand efforts to reach out to small businesses by:

- Developing a network of intermediaries to expand transaction capacity
- Establishing a program to reach out to SMEs owned by women and minorities

Administration Foreign Policy Priorities

OPIC is planning to continue its efforts to mobilize private investments for foreign policy priority countries such as Iraq, Pakistan, and Afghanistan. In order to align OPIC's projects in these countries with the President's policies, OPIC must coordinate effectively with other policy and development organizations. To achieve this, OPIC plans to:

- Regularly engage OMB, NSC, and NEC on ongoing policy issues
- Work with USAID, State, and Treasury on country strategy
- Deepen working relationships with multilateral financial institutions

Measuring Mission Performance

As previously mentioned, OPIC has developed a means for evaluating the development contribution of individual OPIC projects, and the agency as a whole. This Development Matrix was introduced in FY 2003, refined in FY 2004, and efforts are currently under way to develop a Matrix to evaluate the development contributions of framework agreements and investment funds.

As a development agency, OPIC has a long history of evaluating development impact as required by its authorizing legislation. Even prior to the implementation of the Development Matrix, OPIC tracked its performance on the basis of a set of disaggregated development parameters such as jobs created.

In the FY 2006 budget, OPIC merged the goals from its GPRA strategic plan with the criteria established by the Development Matrix. Table B-2 presents the results and initiatives under an aligned GPRA and PART framework.

[1] $5 million is the minimum level at which projects become commercially viable for insurers.

In the future, OPIC proposes to use a number of indices derived from the development scores established for each project to evaluate OPIC's overall performance:

- Average development score of projects committed each Fiscal Year
- Program Dollars representing the total investment financed or insured by OPIC
- Weighted average development score of projects (weighted by dollars invested)
- Development "dollars" (total project investment multiplied by its development score divided by 100)
- Development dollars per administrative dollar

The average development score for FY 2005 is 93.2. OPIC is setting a target of 95 in FY 2006 and in 2007. Estimates and targets for Development Dollar impacts and ratio of development dollars to administrative expenses are summarized below.

Table 2 Development Score

	Actual 2004	Target 2005[2]	Actual 2005	Target 2006[2]	Target 2007
Un-weighted average	87.4	90	93.2	95	95
Weighted by dollars invested	86.8	90	92.1	95	95
Program Dollars	5.9 B	5.9 B	1.88 B	1.97 B	2.1 B
Per administrative dollar	141:1	139:1	44:1	47:1	46:1
Development Dollars	5.14 B	5.33 B	1.75 B	1.88 B	1.9 B
Per administrative dollar	124:1	129:1	41:1	45:1	44:1

These metrics compare OPIC's overall impact, the development resources mobilized by OPIC's programs (development dollars), and the mobilization of resources associated with OPIC's overhead (program and development dollars per administrative dollar).

The development dollars per administrative dollar supported by OPIC has declined since FY 2004 as a result of OPIC's increasing focus on small business transactions which, by their nature, are more labor intensive and require the same or greater amount of administrative support than larger projects. Nevertheless, OPIC's efficiency as measured by program dollars to administrative expenses compares favorably to other development institutions.

[2] Target and Actual data for FY 2005, are heavily influenced by two very large infrastructure projects in FY 2004 that heavily influenced the baseline target for FY 2005 and FY 2006. As a result, FY 2006 Targets are revised here.

Program Summary

Insurance

OPIC provides political risk insurance to mitigate the risks faced by U.S. investors in emerging markets and developing economies. Insurance is available for up to twenty years for new investments in new projects or expansions of existing projects. OPIC protects against the risks of currency inconvertibility, expropriation, and political violence, and insures different types of investments such as equity, third party and related party debt, technical assistance, and covered property. OPIC also has specialized programs for investments made by contractors and exporters, investments in the oil and gas industry, infrastructure projects, small business projects, and capital markets transactions. OPIC's Insurance activity is summarized at table B-3.

Several OPIC insurance projects demonstrate OPIC's contribution to development and to foreign policy:

- *International Rescue Committee (IRC)* – OPIC insurance of $5 million supports the IRC's efforts to provide sanctuary and lifesaving assistance, as well as skill building programs to victims of violent conflicts in 17 countries around the world. As part of this contract, for example, OPIC insured $130,000 of IRC property and equipment such as vehicles, computers, radios, generators, and pumps, and inventory including food, fuel, wood, office supplies, tools, and medicines. This supports the IRC's emergency assistance to refugees fleeing violence in the Darfur region of Sudan.

- *West African Gas Pipeline* - $45 million in OPIC insurance will enable the West African nations of Benin, Ghana and Togo to meet their demand for natural gas for the next two decades. The project represents the largest single foreign investment to date in those countries. The pipeline will have sufficient capacity to satisfy projected demand for natural gas in Benin, Ghana, and Togo through the year 2025. The project will contribute meaningfully to West Africa's environment, foremost by using natural gas that would otherwise be flared.

- *Russian Healthcare Infrastructure* – OPIC issued $46.7 million of insurance for ACD Research, Inc., of Staten Island, New York, for the supply of high-tech medical equipment and technical training to the Samara Oncology Center, about 600 miles southeast of Moscow. Construction of the 550-bed oncology center was completed in 2004; installation of the equipment will enable the facility to provide advanced treatment options in a densely populated region home to 13 percent of Russia's total population.

Finance

OPIC supports finance projects through its direct loan program and its investment guaranty program. Direct loans are provided to OPIC's small business clients by the Small and Medium Enterprise Finance Department. OPIC's Structured Finance Department generally supports large-scale projects with investment guaranties.

Small and Medium Enterprise Finance

OPIC established the Small and Medium Enterprise Finance Department (or SME Finance) in order to better meet the unique needs of small and medium sized enterprises (SME's) that want to invest in developing countries. Congress strongly encourages OPIC's new focus on small business. Over the past year, OPIC has succeeded in significantly increasing the number of loans to SME's, which has been a longstanding goal and a natural outcome of the Administration's guidance that OPIC should focus more closely on companies and countries that cannot access private financing.

Supporting SME's, however, is more labor intensive than supporting large projects with financially sophisticated sponsors. In order to become a truly effective player in the delivery of longer-term financing to smaller enterprises, OPIC needed to change its lending process to meet the needs of smaller organizations, in particular the need for simpler, less costly, more efficient and more predictable application and underwriting processes, such as lending based on a solid business plan.

The following projects provide an example of the types of projects the SME finance department supported in FY 2005:

- *Housing in Zambia* – A $46.3 million loan for a housing development in Zambia will leverage $80 million of new housing construction, generate 5,000 new homes and serve as a model for future housing projects in sub-Saharan Africa. The project also advances the Administration's African Mortgage Market Initiative, established in July 2003 to encourage the development of mortgage markets in sub-Saharan Africa. OPIC will provide the loan to Houses for Africa Mortgage Finance Zambia, to facilitate financing for 5,000 new homes to be built in the Lilayi Housing Estate near Lusaka, the capital. The company is a joint venture between Nevada-based Houses for Africa Inc.; Pangaea Holdings LLC of Wisconsin; and City Investments Ltd, a Lusaka, Zambia-based agricultural and real estate development company. The Lilayi estate will provide electricity, water and sewage, telephone, trash removal and parking services, stations for bus and taxi services and a separate commercial and retail area with banking services on site, a school, clinic, green areas for recreation and a police post. In addition, USAID will provide technical assistance in the enhancement of the title deeds registry system with the Zambian Ministry of Lands.

- *Entrepreneurship in Rwanda* – A $10 million loan will enable a leading Rwandan bank to increase its lending for mortgages, small businesses and commercial expansion. OPIC's loan to the Bank of Commerce, Development and Industry, Ltd. will help Rwanda address a critical shortage of housing and commercial real estate, and encourage an emerging market for home ownership and mortgages.

- *Business Support Services in Afghanistan* – A $300,000 loan to IBS Holdings, owned by three American citizens, will outfit an office in Kabul with equipment. IBS Holdings will provide business support services to companies establishing operations in Afghanistan. Services will include short-term office leasing, meeting services, business registration assistance and secretarial/technical support. The project will form alliances with established Kabul businesses and provide valuable training opportunities to local Afghans.

- *Soil Conditioning in Pakistan* – OPIC financed $3 million to Sweetwater International, Inc., of Salt Lake City, Utah, for the manufacture, sale and leasing of Sulfurous Acid Generator (SAG) machines throughout Pakistan. The SAG technology, patented by Sweetwater International, reduces salinity and sodicity in soil, resulting in improved arability and increased agricultural yields. Sweetwater International estimates that the project will increase farmers' annual crop yields by more than 30 percent, and will therefore help Pakistan reduce poverty on a local basis. A local subsidiary of the company will sell and lease the machines to Pakistani farmers, non-governmental organizations, government agencies, and distributors. The project will begin in Punjab province, where soil is particularly affected by high saline and saline/sodic content.

Structured Finance

Structured Finance specializes in the detailed project design and risk mitigation necessary to protect OPIC's interests in large projects and in transactions where OPIC's guarantee rather than a direct loan would best support the deal structure. In addition, Structured Finance has handled special initiatives that arise as a result of Administration, Congressional and foreign policy priorities.

Structured Finance develops large-scale projects such as electricity, water, housing, and business accommodations and services. These projects are important components of development because they support other economic activity and because they require long term financing which local markets cannot generally provide. Structured Finance has also worked to develop financial sector projects where OPIC's support flows through financial institutions in other countries.

Infrastructure, services, and the financial sector provide the foundation for a healthy developing economy. These projects often generate other benefits such as environmental enhancements and community improvements.

In FY 2004 and 2005, the Structured Finance Department supported projects that will facilitate the reconstruction of Iraq. OPIC successfully launched the Iraq Middle Market

Facility, which will lend to mid-sized Iraqi companies that have struggled during the war and now hope to ramp up their services and products. In FY 2005, OPIC supported a finance facility for the Trade Bank of Iraq.

OPIC has deepened its impact by expanding its partnership with banks that have well known and reputable credit departments, as well as worldwide presence. These financial institutions, which have credit risk sharing arrangements with OPIC, have access to local business opportunities that OPIC would not otherwise be able to identify given its single location. OPIC's partners are familiar with small entrepreneurs who have demonstrated their ability to spur local economic growth, yet who require additional financing.

The following projects provide an example of the types of projects the Structured Finance department supported in FY 2005, and demonstrate OPIC's contribution to development and foreign policy:

- *Potable Water in Algiers* – OPIC's financing of up to $200 million for a desalination project in Algeria will support the supply of urgently needed potable water to its capital city. Currently many residents of Algiers are supplied with water only one out of every three days, and existing water resources are being depleted at an unsustainable rate. OPIC's loan to Hamma Water Desalination SpA, sponsored by GE Ionics through a joint venture with the state-owned Algerian Energy Company, will provide financing for the construction and operation of a reverse osmosis seawater desalination facility that will deliver 200,000 cubic meters of potable water daily, equivalent to approximately 25% of daily water demand in Algiers. The project will be the first private potable water desalination plant in Algeria and the first Algerian private infrastructure project to be financed on a limited recourse basis.

- *Cellphone Service in Ghana* – OPIC guaranteed a $15 million loan to a cellular telephone company, Millicom Ghana, in its efforts to provide private telephone services to the underserved population in Ghana. With this new infusion of funds, Millicom will be able to support an additional 140,000 new mobile GSM subscribers in Ghana via an increase in network capacity.

In FY 2006 and 2007, OPIC expects to see continued activity in airport and road infrastructure, natural resource processing, clean energy, financial services, and housing.

Investment Funds

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

To accomplish these goals, OPIC provides loan guarantees to qualified investment fund managers in the private sector. These managers in turn raise risk capital in the form of equity and equity-like investments to companies in emerging markets. Since inception, OPIC-supported funds have contributed $2.5 billion in private equity capital invested in emerging markets. Over the past few years, OPIC restructured the Funds program, with an increased focus on top quality managers, reduced leverage and market-oriented terms.

In FY 2006, OPIC will be guided by its current Asset Allocation Plan, which provides for diversification across regions, sectors, styles, and fund life cycles. At the same time, the plan provides OPIC with the flexibility to respond to and support U.S. government foreign policy initiatives. OPIC is midstream in executing its FY 2005/6 Asset Allocation Plan and has completed calls for proposals for Mexico, the Middle East/North Africa, and Global Technology. OPIC has also issued a call for proposals for one or more funds in Eurasia, including Central Asia.

In FY 2007, OPIC intends to revise its Asset Allocation Plan. Subject to identification of top fund managers, OPIC plans to provide approximately $350 million in guaranties to approximately eight funds each year. OPIC mitigates risk through increased diversification and lower average exposure per fund. In addition, OPIC will draw on a wider range of tools provided by its statutory authority to enhance the ability of its products to respond to market needs. Such tools may include the ability to guarantee local currency loans, and customize the terms of OPIC's participation in fund capital structures to adjust risk-reward ratios and attract private capital to difficult markets.

Table B-4 presents an overview of OPIC's combined finance and investment funds credit activity.

Appendix A: Appropriations Language

Non Credit Account

OVERSEAS PRIVATE INVESTMENT CORPORATION

NONCREDIT 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 [$42,274,000] *$45,453,000*: *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

OVERSEAS PRIVATE INVESTMENT CORPORATION

PROGRAM ACCOUNT

For the cost of direct and guaranteed loans, [$20,276,000] *$20,035,000*, 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 [2006 and] 2007, *2008, and 2009*: *Provided further*, [That such sums shall remain available through fiscal year 2014 for the disbursement of direct and guaranteed loans obligated in fiscal year 2006 and through fiscal year 2015 for the disbursement of direct and guaranteed loans obligated in fiscal year 2007] *That funds so obligated in fiscal year 2007 remain available for disbursement through 2015; funds obligated in fiscal year 2008 remain available for disbursement through 2016; funds obligated in fiscal year 2009 remain available for disbursement through 2017*: *Provided further*, That notwithstanding any provision of the Foreign Assistance Act of 1961, 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

Whenever the President determines that it is in furtherance of the purposes of the Foreign Assistance Act of 1961, up to a total of [$20,000,000] *$30,000,000* of the funds appropriated under title II of this Act may be transferred to and merged with funds appropriated by this Act for the Overseas Private Investment Corporation Program Account, to be subject to the terms and conditions of that account: *Provided*, That such funds shall not be available for administrative expenses of the Overseas Private Investment Corporation: *Provided further*, That funds earmarked by 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 [2006] *2007*, for programs under title I of this Act may be transferred between such appropriations for use for any of the purposes, programs, and activities for which the funds in such receiving account may be used, but no such appropriation, except as otherwise specifically provided, shall be increased by more than 25 percent by any such transfer: *Provided*, That the exercise of such authority shall be subject to the regular notification procedures of the Committees on Appropriations.

Appendix B: Budget and Analysis Tables

Table B-1 OPIC's Budget FY 2005 – 2007

Appropriated Resources (dollars, thousands)	2005 Actual	2006 Enacted	2007 Request
ADMINISTRATIVE EXPENSES			
Appropriated by Congress	42,885	42,274	45,453
Rescission	(343)	(423)	-
Net Administrative Expenses	42,542	41,851	45,453
CREDIT REFORM SUBSIDY			
Appropriated by Congress	24,000	20,276	20,035
Rescission	(192)	(203)	-
Net Subsidy	23,808	20,073	20,035
Transfer Authority	-	20,000	30,000
Net Negative Budget Authority, OPIC	(185,910)	(161,076)	(159,512)

Totals may not add due to rounding.
Net negative budget authority and outlays are subject to change depending on outlay rates.

Table B-2A GPRA Annual Performance Plan & Report
Alignment of GPRA and Part Goals, Measures, and Targets

General Goals	Performance Indicators Measure	2005 Target	2005 Actual[3]	2006 Target	2007 Target
DEVELOPMENT GOALS					
Overall Development Matrix Score		**90**	**O 93.2**	**95**	**100**
Human capacity building	Job Creation: Number of jobs per $1,000,000 invested	28	O 41 I 50.4 F 28.7	>24	See Table B-2B[4]
	Job Complexity: Managerial or Professional jobs as Average proportion of total jobs created per project	50%	O 50% I 36.0 F 62.9	50%	
	Training: Average per project percentage of staff that will receive formal training	50%	O 74% I 70.0 F 74.4	50%	
Private sector development	Local Project Ownership: Average percentage of local private ownership of project	30%	O 19% I 17.0 F 21.2	30%	
	Host country small and medium enterprises (SME) development: % of Projects with over 15% SME local Ownership	15%	O 21% I 15 F 24	15%	
Leveraging of foreign direct investment into the developing world	Mobilization of the maximum amount of capital into a host country per dollar of OPIC support (Increased levels of Small Business support may impact this goal): The ratio of non-OPIC contribution to total project cost	>40%	O 40%	>40%	

[3] Where available, data are broken down by: (O)verall, (I)nsurance, and (F)inance
[4] All Development Measures and targets for FY 2006 are succeeded by the Development Score beginning in Fiscal Year 2007. See Table B-2B.

General Goals	Performance Indicators Measure	2005 Target	2005 Actual[3]	2006 Target	2007 Target
SECONDARY GOALS					
Social effects	Promote equal opportunity policies, encourage corporate social responsibility initiatives, and preserve the environment	15/30	O 26.7 / 41 I 26.8 F 26.5	20.5/41[5]	See Table B-2B
Development Infrastructure Improvements	Contribute to the improvement of the physical, financial, and social infrastructure of the developing world	9/15	O 1.8 / 3 I 1.7 F 2.0	1.8 / 3	
Macroeconomic and Institutional Effects	Matrix Score: Promote investments in less developed countries and generate host country government revenues	9/15	O 4.4 / 12 I 4.2 F 4.5	7.2 / 12	
Technology & Knowledge Transfer	Matrix Score: Encourage the transfer of technology and know-how to the developing world	9/15	O 5.1 /15 I 4.0 F 6.2	9 / 15	
OPERATIONAL GOALS					
Mitigate risk through sound portfolio management practices, and by encouraging good corporate citizenship.	Maximum variance of actual from projected risk	<5%	<5%	<5%	<5%
	Number of on-going OPIC projects monitored for compliance with OPIC's U.S. effects, environmental, and worker rights standards All active projects will be self-monitored each year, and all sensitive projects will be site monitored by 3rd year of operation. Due diligence will occur before project approval for environmentally sensitive projects.	Yes	Yes 259 projects	Yes	Yes

[5] FY 2006 Targets have been redenominated for changes to the methodology.

General Goals	Performance Indicators Measure	2005		2006	2007
		Target	Actual[3]	Target	Target
	Number of monitored on-going projects that meet OPIC's U.S. effects, environmental, and worker rights standards	100%	99.2%[1]	100%	100%
Additionality	Evaluate new projects to ensure that they would not have gone forward but for OPIC's participation. Develop methodology in FY 2003; Establish baseline in FY 2004; Improve baseline score by 10% in FY 2005.	100%	100%	100%	100%
Small U.S. Business: Ensure that OPIC support is provided to small U.S. businesses.	Number of small business projects resulting from the SBC Complete 60 SBC Finance Deals and 60 SBC insurance contracts in FY 2005. Total: 120 SBC deals	60	81	65	65
	Efficiency: Reduce SBC small business cycle time	75 days[2]	F 68 I 35	70 days	70 days
Operate in a self sustaining, businesslike manner.	Operating revenue is equal to or greater than operating expenses	Yes	Yes	Yes	Yes
	Number of executed loan agreements and insurance contracts that occur as a result of Moscow Office	10	13	10	10

[1] Monitoring discovered issues with two investments which, as a result, were divested or removed from OPIC's portfolio.
[2] This target was revised in the most recent PART.

Table B-2B Development Score Indicators

OPIC's Development Score methodology outlined below will be the metric used for OPIC's development performance beginning in Fiscal Year 2007. See "Overall Development Matrix Score" in Table B-2A.

	DEVELOPMENT CATEGORY Indicator	Negative Impact	No Impact	Some Impact	Strong Impact
I.	**GNP PER CAPITA**				
	GNP per capita Level	High Income Country	Medium Income Country	N/A	Low Income Country
II.	**CORE DEVELOPMENT INDICATORS**				
	Job Creation	Causes a loss of local jobs	No jobs created	Creates fewer than 28 jobs per $1,000,000 of total project investment	Creates 28 or more jobs per $1,000,000 of total project investment
	Training	N/A	No	Greater than zero but less than 50% receive formal training	Proportion of receiving formal training is 50% or higher
	Local procurement	N/A	No local procurement	At least 1% but less than 50% total project procurement is sourced locally	50% or greater total project procurement sourced locally
	Corporate Social Responsibility	Project causes a negative social impact	No employee, social or community benefits	Benefits limited to company employees (e.g., company-paid meals, transportation)	Social investment directly benefiting local community (e.g., building community centers, clinics, roads, etc.)
	Equal Employment Policy	Discriminatory policy or practice	No formal or informal EEO policy	Informal policy prohibiting discrimination or follows local law	Formal, written EEO policy that is communicated to all employees and supervisors or surpasses local law
III.	**SUPPLEMENTAL DEVELOPMENT INDICATORS**				
	HUMAN CAPACITY BUILDING				
	Job Complexity	N/A	No local managerial or professional jobs created	Managerial and professional jobs as a proportion of total jobs created exceeds 1% (but does not reach 50%)	Managerial and professional jobs as a proportion of total jobs is 50% or higher
	Training Abroad	N/A	No training abroad	Training in another developing country	Training in a developed country

DEVELOPMENT CATEGORY Indicator	Negative Impact	No Impact	Some Impact	Strong Impact
PRIVATE SECTOR DEVELOPMENT				
Local ownership stake	N/A	No local ownership	Greater than 0% (but less than 30%) local private ownership	30% or greater local private ownership of project resources
Benefits to local Small & Medium Enterprises (SME)	N/A	No local SME project ownership	At least 1% but less than 15% local project ownership by SME	15% or greater local project ownership by SME
LEVERAGING IMPACTS				
Insurance, Leveraging other investments	N/A	N/A	Any Insurance project	Reinsurance, co-insurance, or non-honoring sovereign guaranty
Finance, Leveraging other investments	N/A	OPIC finances 67%- 100% of total project investment	OPIC finances 51% to 66% of total project investment	OPIC finances 50% or less of total project investment
Complementing other development institutions	N/A	None	Project involves a development institution	Project involves multiple development institutions
Public-Private Partnerships	N/A	None	N/A	Local government, development bank, ministry, or NGO
SOCIAL EFFECTS				
Benefits for Women in the Workplace	Discriminatory policy or practice	No relevant policies	Maternity leave or child care	Policies for maternity leave and childcare
Benefit to Poor (Rural) Region	N/A	No rural benefit	Indirect benefit to rural communities through procurement or other linkage	Direct investment in a rural area
Environmental Preservation	Project cannot go forward because fails to meet statutory conditions on environmental impact	Project takes steps to mitigate an identified negative environmental impact	Project generates a moderate environmental benefit	Project focus is to preserve, enhance or restore the local environment ("Category E" projects e.g., eco-tourism, reforestation, water treatment)
DEVELOPMENTAL INFRASTRUCTURE IMPROVEMENTS: Physical (communication, transportation, energy, water), Financial (banking, mortgage, microfinance), or Social (shelter, nutrition, education, healthcare)		Not an infrastructure project	Lower income levels of the population have limited access to the infrastructure	Infrastructure is accessible and affordable to all segments of the population

DEVELOPMENT CATEGORY **Indicator**	**Negative Impact**	**No Impact**	**Some Impact**	**Strong Impact**
MACROECONOMIC & INSTITUTIONAL EFFECTS Project resulting from or causing government reform	Government concessions tied to project have anti-competitive impact on macro-economy	No project relationship to government reform	Project investment directly resulting from or causing a government regulatory, judicial, or other institutional reform applicable only to the project	Project investment directly resulting from or causing a government regulatory, judicial, or other institutional reform applicable to the entire sector or economy
Export Earnings	N/A	No exports	Partial sales are from exports	All sales are from exports
Economic Diversification	N/A	Project is in saturated sector	Project involves an underdeveloped sector of the local economy or project produces a product or service that is not widely available in the local market	Project involves an economic sector that is essentially nonexistent in the local economy or project produces a product or service that is not at all available in the local market
Fiscal Impacts	N/A	Project pays no taxes over the first 5 years of operations	N/A	Project pays taxes, duties, and fees to the government over the first 5 years of operations
TECHNOLOGY & KNOWLEDGE TRANSFER				
New Production Technologies	N/A	None	Implements technologies that are relatively uncommon in the local economy or project sector	Introduces technologies that are new to the local economy or project sector
Innovative Management Practices	N/A	None	Implements managerial practices that are relatively uncommon in the local economy	Introduces managerial practices that are new to the local economy
Marketing & Distribution Expertise	N/A	None	Implements marketing and distribution strategies that are relatively uncommon in the local economy or project sector	Introduces marketing and distribution strategies that are new to the local economy or project sector
Lower local prices	Project increases local prices	No reduction to local prices	Product may have some impact on lowering local prices due to increased supply in market	Product planned for introduction at a substantially lower price than competition
New product/service	N/A	None	Produces a product/service that is not widely available in the local market	Produces a product/service that is not at all available in the local market

Table B-3 Summary of Insurance Program Activity

(dollars, millions)	2005 Actual	2006 Estimate	2007 Projection
Aggregate Maximum Insured Amount			
Start of year	$ 10,833	$ 8,125	$ 7,125
Issuance during the year	1,128	2,000	1,200
Reductions/Cancellations	(3,866)	(2,000)	(1,100)
Outstanding end of year	$ 8,125	$ 7,125	$ 7,225
Maximum Contingent Liability			
Statutory limitation*	$ 29,000	$ 29,000	$ 29,000
End of year	$ 4,512	$ 4,700	$ 4,800
Current exposure to claims (CEC), end of year	$ 3,845	$ 3,100	$ 3,100
Insurance Premium Revenue	$ 28	$ 29	$ 27

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

Definitions

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

Maximum Contingent Liability (MCL): MCL is the basis used to measure the maximum amount of compensation for which OPIC would be liable, which is limited by the statutory authorization in the Foreign Assistance Act. Under most active OPIC contracts, investors may obtain all three coverages -- inconvertibility, expropriation, and political violence -- but aggregate claim payments may not exceed the single highest maximum insured amount for each contract.

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

Table B-4 Summary of Finance Program Activity & Request

(dollars, millions)	2005 Actual	2006 Estimate	2007 Request
New Appropriations	$ 24.0	$ 20.3	$ 20.0
Carry-forward from Prior Year	0.0	0.5	
Total Resources	$ 24.0	$ 20.8	$ 20.0
Projected Activity			
Finance	$ 1,694.0	$ 1,600.0	$ 1,350.0
Investment Funds	335.0	400.0	600.0
New Commitments	$ 2029.0	$ 2000.0	$ 2,150.0
Uses of Credit Funding	24.0	20.3	20.0
Memorandum*			
Direct Loans	+ 6.56 %	+ 14.64 %	+ 13.18 %
Guarantees	+ 0.92 %	+ 0.80 %	+ 0.50 %

OPIC's Finance programs include Small and Medium Enterprise Finance, Structured Finance, and Investment Funds.

* Because subsidy rates are estimated transaction by transaction, they may vary widely from the rates printed above and from rates published in the in the President's *Credit Supplement*.