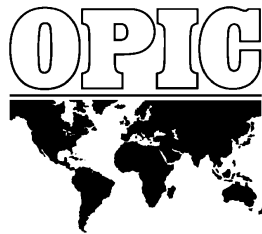


**Report of the  
OVERSEAS PRIVATE INVESTMENT CORPORATION**

**ANNUAL POLICY REPORT**

**FISCAL YEAR 2007**



**Submitted Pursuant to  
Section 240A of the  
Foreign Assistance Act of 1961,  
As Amended**

**June 2008**

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# OPIC ANNUAL POLICY REPORT – FY 2007

## Executive Summary

- In Fiscal Year 2007 (FY 2007), OPIC assisted 139 projects (including 22 investment funds subprojects and 32 framework subprojects) in 56 countries or regions, involving a wide range of industries. These projects are expected to generate more than \$760 million in U.S. exports and support over 1,500 U.S. jobs.
- Of all the projects that OPIC supported in FY 2007, 79 percent, or 111 projects involved small businesses. In addition, the projects OPIC assisted in FY 2007 are expected to procure \$84 million from U.S. small businesses located in 21 states, plus the District of Columbia, supporting 206 U.S. jobs during the first five years of operations.
- Seventy-two percent of FY 2007 projects target the services sector, which includes financial services, social services, communications, tourism and other services. The high proportion of projects in this sector reflects the increasing importance of services to the global economy and the desire of U.S. services companies to expand their operations internationally.
- The projects that OPIC supported in FY 2007 are expected to generate over 21,000 jobs in developing countries. Total initial host-country expenditures are projected to be \$3.5 billion, which will support these jobs and spur additional economic activity and indirect employment in the host countries. Ninety-four percent of the 139 OPIC-supported projects in FY 2007 were located in low- and middle-income developing countries.
- OPIC completed the first year of its seventh three-year monitoring “round.” In FY 2007, OPIC monitored 36 insurance, finance and investment fund projects in 15 countries across several regions. The seventh monitoring round initiates an integrated monitoring program, which includes coordinated monitoring across all three disciplines – Labor and Human Rights, Environment Impacts, and Economic and Developmental Effects.
- All OPIC-supported projects approved in FY 2007 were subject to a human rights review. OPIC works in close consultation with the U.S. Department of State’s Bureau of Democracy, Human Rights, and Labor (DRL) when reviewing each project.
- Every project considered for OPIC support is subject to a full worker rights review and OPIC support is conditioned upon adherence to internationally recognized worker rights. All OPIC projects are subject to statutorily required contract language; most potential projects also are subject to supplemental contract language addressing one or more internationally recognized rights.
- OPIC pursued its strategic initiatives by working in close collaboration with other U.S. agencies in promoting economic development within key regions in the world, including the Middle East and North Africa, Sub-Saharan Africa, and Central America.
- OPIC’s newly redesigned website facilitates improved public access to a greater amount of environmental and social impact information. The OPIC website now enables public access to full text, non-business confidential versions of environmental and social documentation for Category A projects being considered for support by the Agency.
- In June 2007, OPIC announced its Greenhouse Gas Initiative, a commitment to reduce greenhouse gas emissions from the OPIC-supported project portfolio by 20 percent by 2018 and to emphasize support for future renewable energy and energy-efficient projects.

# I. OPIC in 2007

## Fiscal Year Overview

***In Fiscal Year 2007, OPIC assisted 139 projects in 56 countries and regions.***

OPIC's insurance, finance, and investment funds assisted 139 new projects<sup>1</sup> located in 56 countries and regions around the world in FY 2007. The 2007 total project count reflects a significant increase over 2006, when OPIC committed to 70 projects. One cause of the increase in the total number of projects supported is due to the inclusion, for the first time, of subprojects generated under OPIC-supported investment funds and framework agreements as separate projects.

In Fiscal Year 2007, these 139 projects included:

- 7 structured finance projects
- 32 framework subprojects
- 36 small and medium enterprise finance projects
- 22 investment fund subprojects<sup>2</sup>
- 42 insurance projects.

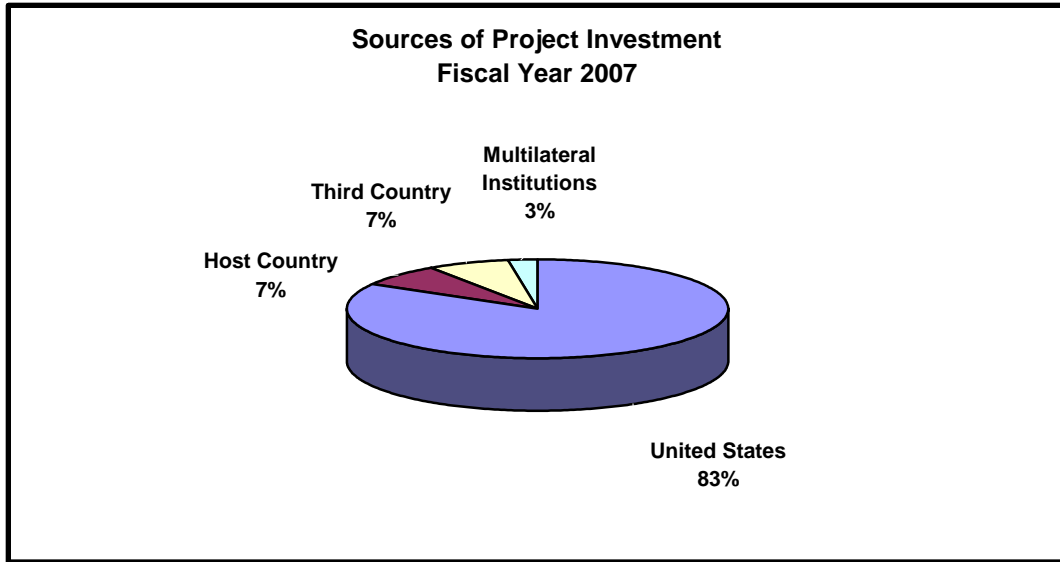
The total investment amount of the 139 new projects was \$4.8 billion, of which approximately 83 percent (\$4.0 billion) represents investment from U.S. sources (including OPIC), seven percent each from both host countries (\$351 million) and from third countries (\$333 million), and three percent (\$127 million) from multinational development institutions (see Figure 1). Thus, OPIC's assistance to U.S. investors leveraged over \$800 million worth of investment from non-U.S. sources, mobilizing capital from numerous international investors.

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<sup>1</sup> In previous years, OPIC has included in its project count its framework agreements and investment funds as single projects. The downstream investments of the framework agreements and investment funds were not included in the project count. However, beginning with FY 2007, the downstream investments of the framework agreements and investment funds are included in the project count -- rather than the overall framework agreement or investment fund. Using this more inclusive approach, the data will cover all projects that OPIC supports on an annual basis. Due to the high volume of projects supported under OPIC's framework agreements and investment funds, the FY 2007 project count appears to increase significantly over previous years.

<sup>2</sup> OPIC also approved five new investment funds, however, due to modifications in the project count methodology beginning in FY 2007 described above, these five funds and projected impacts are not included in the annual project total.

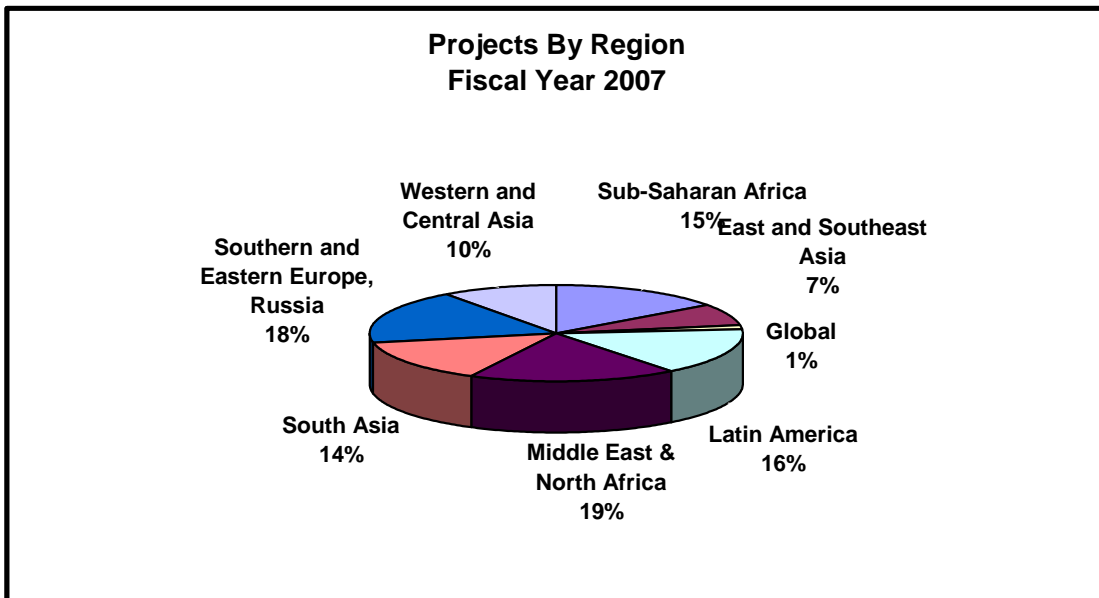
**Figure 1**



***OPIC-Supported Projects Target Emerging Markets around the Globe.***

In FY 2007, OPIC-supported projects were evenly spread throughout the developing world, with a significant portion of projects located in the agency's targeted regions: the Middle East and North Africa, Sub-Saharan Africa, and Central America and the Caribbean (the latter two incorporated in the Latin America classification). The regional distribution of OPIC's FY 2007 projects is shown in Figure 2 below:

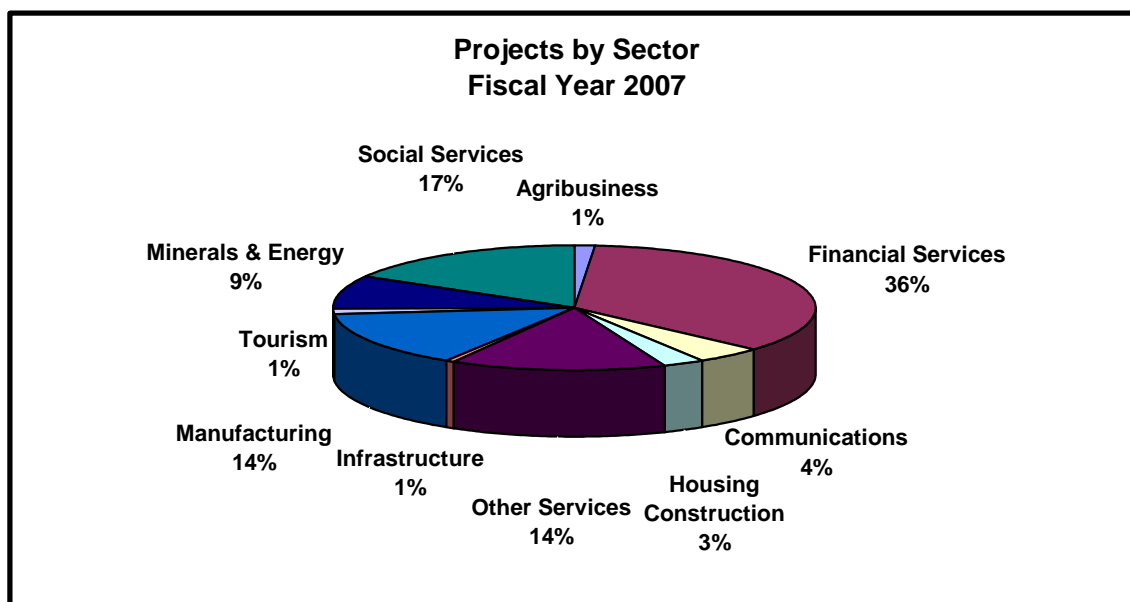
**Figure 2**



***In Fiscal Year 2007, OPIC supported projects across a broad range of industries.***

Figure 3 illustrates OPIC-supported projects broken down by sector. Projects in the financial services sector accounted for 36 percent of all new OPIC-supported projects in 2007, followed by social services<sup>3</sup> (17 percent), other services (14 percent), manufacturing (14 percent), minerals and energy (9 percent), communications (4 percent), housing construction (3 percent), and agribusiness, tourism, and infrastructure (one percent each). The entire services sector, composed of financial services, social services, communications, tourism, and other services, accounted for 72 percent of all new OPIC-supported projects in 2007.

**Figure 3**



**OPIC Initiatives in FY 2007**

In 2007, OPIC successfully launched a significant new environment initiative and targeted key regions and sectors to fulfill its mission of promoting positive economic development in emerging markets. To promote investment in particularly vulnerable countries that are critical to U.S. foreign policy, OPIC continued its work with other U.S. Government agencies to promote the Rapid Economic Development Initiative (REDI), which is designed to facilitate a coordinated and responsive approach to targeting new projects in post-conflict and transitional areas.

OPIC continues to promote actively U.S. private investment in regions that are particularly vital to U.S. foreign policy, such as the Middle East, North Africa and Sub-Saharan Africa. OPIC also targeted projects that focus on housing construction and finance, with a particular emphasis on low and middle-income housing, and has coordinated improved access to finance for micro-, small-, and medium-sized entrepreneurs in numerous developing countries. OPIC continued to forge partnerships with the governments of Central America and the Dominican Republic to facilitate private sector investment in the region since the enactment of the Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR).

<sup>3</sup> Social services are defined as any investment providing humanitarian relief or education services.

***OPIC promotes green development through the implementation of a Greenhouse Gas Initiative that will cap greenhouse emissions of new OPIC-supported projects and encourage investment in renewable and clean energy projects.***

In June 2007, OPIC announced the Greenhouse Gas Initiative, a commitment to reduce greenhouse gas emissions from the OPIC-supported project portfolio by 20 percent by 2018 and to encourage support for future renewable energy and clean energy projects. To meet the portfolio greenhouse gas reduction target, OPIC has established an annual emissions cap for all new greenhouse gas emissions associated with OPIC-supported projects to which OPIC provides a commitment in a given year. The cap is equivalent to the emissions from projects committed to by OPIC in Fiscal Year 2007, 2.927 million metric tons of CO<sub>2eq</sub> per year. If met, OPIC's 10-year goal will result in a reduction in emissions of more than 10 million tons CO<sub>2eq</sub> associated with projects in OPIC-supported project portfolio.

On a project basis, OPIC will work with the private sector to encourage U.S. investment in renewable energy and clean energy projects through the application of market-based incentives. OPIC will consider greenhouse gas emission reduction alternatives for all OPIC-supported projects, such as opportunities to increase project energy and operational efficiencies, and the application of new technologies for the capture, storage and recovery of greenhouse gases.

OPIC also will enhance its accounting and reporting of greenhouse gas emissions from OPIC-supported projects. Instead of aggregate emission reporting, OPIC will report the annual greenhouse gas emissions of each OPIC-supported project with significant emissions in the active project portfolio, as well as the projected greenhouse gas emissions of each project receiving an OPIC commitment during the previous fiscal year. This accounting and reporting will be subject to independent third-party verification. In addition, OPIC will report renewable energy and energy efficiency aspects of OPIC-supported projects.

***OPIC promotes projects that provide economic opportunity at the local level through improved access to finance for micro-, small- and medium- sized entrepreneurs.***

OPIC supported numerous financial services projects in 2007, with a particular emphasis on projects that focused on improving access to finance for micro-, and small- and medium-sized borrowers (MSMEs) in emerging markets. SMEs have been identified as a significant driver of employment and production in developed countries, yet SMEs continue to comprise a small proportion of total employment and economic production in many developing countries. Existing SMEs often cite a lack of access to finance as an inhibitor to growth. To address these issues, OPIC has targeted improving access to finance in many of its eligible countries. In particular, OPIC supported projects that directly target SME and micro-borrowers in all of its priority regions, as detailed in each section below.

***OPIC's Rapid Economic Development Initiative targets investment in Afghanistan, Pakistan, Liberia, West Bank and Lebanon.***

OPIC's Rapid Economic Development Initiative (REDI), created in conjunction with other U.S. Government agencies, targets investment in nations whose security or continued political and economic stability urgently depend on quick and tangible economic progress. These REDI countries are Lebanon, Liberia, Pakistan, West Bank, and Afghanistan. In FY 2007, 24 of the 139 projects that OPIC supported were in REDI countries.

**Liberia:**

In 2006, OPIC reopened its programs in Liberia for the first time since 1990. In September 2006, new President Ellen Johnson-Sirleaf challenged the international community to support the efforts of her government in the reconstruction of Liberia. In particular, she requested support for Liberia's private sector, which plays a significant role in the area of job creation, revenue generation, and overall economic activity. To meet this challenge, OPIC and CHF International (CHF) have financed the development of a non-bank financial institution called the Liberian Enterprise Development Finance Company (LEDFC),

whose purpose will be to provide credit to Liberian-owned SMEs. This project will contribute directly to the current reconstruction effort in Liberia by providing access to financing for the small and medium-sized entities that the country will need to grow its economy. In addition to credit, Liberian enterprises also will receive business development assistance to ensure that their ideas will have the greatest chance for success. LEDFC hopes to address the credit needs of 1,500 Liberian businesses. CHF expects that almost 40 percent of borrowers will be women or women-owned businesses.

#### **Pakistan:**

Through its Citibank Pakistan II framework facility, OPIC will support the microfinance lending efforts of the Kashf Foundation, a leading microfinance institution (MFI) in Pakistan. The Kashf Foundation has been providing microfinancing in and around Lahore, Pakistan since 1996. Kashf was the first specialized microfinance institution in Pakistan, the first MFI targeting only women from low income communities, and the first MFI to charge a sustainable fee for its services. This project provides much-needed capital to augment the Pakistani banking sector's capacity for providing micro-credit to an underserved section of the population by targeting Pakistani women. With OPIC's financial support, Kashf expects to make nearly 40,000 new loans to roughly 18,000 borrowers, all of whom will be women. The average loan size is projected to be \$231.

#### ***OPIC is working in partnership with other government agencies and the private sector to facilitate investment in Central America.***

As part of the agency's on-going efforts to cultivate private sector investment in the CAFTA region, OPIC held a conference in El Salvador in May 2007 entitled *Access to Opportunity in Central America and the Caribbean*. The conference was designed to identify investment opportunities in the region for U.S. companies and included 300 participants from 15 countries, representing U.S. and regional businesses, leading financial institutions, and the governments of the United States and Central America. OPIC also strengthened and forged new partnerships with its counterpart agencies to promote development in the CAFTA-DR region.

In an effort to improve access to finance for small businesses in Central America via banks and other financial intermediaries in Latin America and the Caribbean, the U.S. Department of the Treasury, the Inter-American Development Bank's (IDB) Multilateral Investment Fund (MIF), and OPIC have launched a technical cooperation program for banks that are committed to serving small enterprises and significantly expanding their financing operations in the small business sector. For qualified financial intermediaries, OPIC has a program to provide financing and guarantees for small business loans. In addition, IDB will provide technical assistance to help banks service this market and the U.S. Treasury Department's Office of Technical Assistance will address regulatory roadblocks to small business lending.

#### **Honduras:**

In Honduras, an OPIC-guaranteed loan through its Wachovia risk-sharing facility will fund the growth of Banco del Pais's consumer and SME loan portfolios, both of which are important to driving economic growth in Honduras. Banco del Pais was incorporated in 1992 and acquired two other commercial banks in 2003. The project will foster financial infrastructure development by expanding the availability of mortgages for middle class customers and by providing loans to support SME ventures. Honduran consumers should benefit from greater competition in the lending sector via lower interest rates and more readily available credit. The project will issue more than 2,000 new loans, with an average lending amount of about \$25,600.



***OPIC actively has supported projects in the housing and mortgage sectors.***

OPIC-supported housing-related projects span sectors as diverse as financial services for mortgage lending and loan securitization; construction; and other services supporting the housing market. OPIC supported housing-related projects in numerous countries, including the following:

**Nicaragua:**

OPIC supported a \$10 million loan to Banco de Credito Centroamericano (Bancentro), a Nicaraguan bank, via its U.S. owner, Roberto Zamora. The OPIC loan will assist Bancentro in expanding its mortgage financing operations to underwrite a portfolio of 20-year residential mortgage loans for low-income borrowers. With the OPIC loan, Bancentro will become the first provider of long-term, fixed rate mortgages in Nicaragua. The project will provide financial infrastructure development through the expansion of mortgage finance in Nicaragua, thereby assisting in developing the construction and associated real estate sectors. One of Bancentro's most important initiatives is the San Andrés housing project in Ciudad Sandino, designed to construct more than 1,300 homes for low- and moderate-income Nicaraguans. Bancentro is using OPIC supported funds to offer long-term, affordable mortgage financing at San Andrés for working Nicaraguans to achieve home ownership.

**Iraq:**

In Iraq, OPIC supported the construction financing of 234 single family housing units by International Homes, LLC, the U.S. investor, in the Kurdish region of Iraq. The Kurdistan Regional Government (KRG) of Iraq will be contributing land and infrastructure to this project. This project will have a strong developmental impact on the region, as 86 percent of the 4,655 villages in the Dohuk, Erbil, and Sulaymaniya governorates were destroyed in the 1991 Gulf War. While 65 percent of the villages have been reconstructed, much of the region is still in need of housing, hospitals, and schools. KRG has been unable to meet the public demand for housing, especially with the recent return of Kurds to this region of Iraq. The project targets these communities in rural areas that desperately need modern housing and provides opportunity for home ownership for the middle income segment of the population.

**Ghana:**

In the West African nation of Ghana, OPIC is addressing a shortage of both affordable housing and mortgage financing options by partnering with Ghana Home Loans Ltd. (GHL), which is owned in part by Broad Cove Partners, Inc, a Massachusetts-based investment partnership. OPIC signed an agreement establishing a non-bank financial institution in Ghana that will originate up to 600 mortgage loans by providing a \$30 million loan to GHL Fund 1 Limited, a credit facility. Through the facility, GHL will originate U.S.-style residential mortgages, enabling Ghanaians to obtain 15-year GHL mortgages with a 25 percent down payment. Other project investors include Standard Bank of South Africa and FMO, a developmental finance agency based in the Netherlands. Ghana has not been able to meet its average annual housing requirements for any period during the last two decades. A lack of mortgage finance institutions in Ghana has made it difficult for middle class families to own homes in a country where a fraction of one percent of the population hold mortgages. Increasing Ghana's mortgage stock significantly will provide both affordable housing and support the growth of its financial infrastructure.

## II. U.S. ECONOMIC EFFECTS AND DEVELOPMENT IMPACTS

In FY 2007, OPIC committed to 139 projects, a significant increase over 2006, when OPIC committed to 70 projects. As noted earlier, the increase in the total number of projects supported is due to the inclusion of subprojects generated under OPIC-supported investment funds and framework agreements as separate projects, which was not done in the past. In previous fiscal years, OPIC estimated the economic and developmental impact of its framework agreements and investment funds using a model based on actual monitored results from similar types of facilities. Projects were counted at the framework and fund level, and did not include impacts at the subproject level. OPIC now includes the estimated economic impact of these individual downstream subprojects in its cumulative reporting data and no longer estimates the overall economic impact of each framework agreement and investment fund using modeled data.

### U.S. Economic Effects

***The projects that OPIC supported in FY 2007 will support over 1,500 U.S. jobs.***

The FY 2007 portfolio of OPIC-supported projects will result in significant economic benefits to the U.S. economy. These include:

- A substantial portion of the initial procurement for OPIC-supported projects will be supplied by U.S. firms, resulting in an estimated \$534 million in U.S. exports of capital goods and services.
- The value of American materials and equipment required for ongoing operations is estimated at \$233 million over the next five years.
- As a result of this level of initial and operational procurement from the United States, the FY 2007 projects will support an estimated 7,920 person-years of direct and indirect employment for U.S. workers. This is equivalent to an average of 1,584 U.S. jobs over a five-year period.
- Taking both the financial and trade flows into account, the combined impact of the FY 2007 projects on the U.S. balance of payments over the first five years of operation is expected to be a negative \$315 million. However, it is expected that over the lifetime of these projects, they will have a positive net balance of payments impact for the U.S.

Information in the Exhibits section at the end of this report shows the break-out of OPIC-supported projects and their impact on the U.S. economy through procurement and support of U.S. employment. Exhibit 1 breaks out all of the OPIC-supported projects in 2007 by sector – including agribusiness, minerals and energy, manufacturing, and services. Using these four sectoral classifications, the chart provides data on the markets – host country, U.S., and third country - in which revenue will be generated for all OPIC-supported projects in 2007, and what the U.S. procurement amount – both initial and operational – will be, as defined by sector. The U.S. employment impact is generated using procurement data provided by investors.

Exhibit 2 shows in detail the revenues generated by third-country sales from all OPIC-supported projects in Fiscal Year 2007, classified by sector. Projects are classified according to their impact on U.S. employment – one group includes projects having a positive U.S. employment impact, and the second group includes projects with a neutral U.S. impact.

**Table 1**

<b>Estimated U.S. Economic Benefits of Fiscal Year 2007 Projects Supported by OPIC</b>	
Total project investment	\$4,842 million
U.S. investment in projects	\$4,031 million
U.S. percent of total	83 percent
<hr/>	
Total direct U.S. project exports	\$767 million
Initial procurement from U.S.	\$534 million
Operational procurement (5 years)	\$233 million
<hr/>	
Estimated U.S. employment supported (5 years, direct and indirect)	7,920 (1,584 U.S. jobs)

OPIC-supported projects are carefully screened for their U.S. employment effects. OPIC does not support projects that would harm the U.S. economy or result in the loss of U.S. jobs. OPIC collects and analyzes, both geographically and sectorally, the projected U.S. employment and associated economic effects of the projects that it assists. Even before taking into account their positive U.S. employment impacts, **none of the Fiscal Year 2007 projects is expected to result in any U.S. job loss.** For a detailed description of the methodology used to calculate the U.S. employment effects of initial and operational procurement generated by OPIC-supported projects, please refer to Exhibit 4.

***OPIC supports U.S. small businesses, directly and indirectly.***

OPIC is dedicated to assisting the small business segments of the U.S. business community expand into developing markets. According to U.S. Census Bureau data published by the U.S. Small Business Administration office in 2007, U.S. small businesses represent 99.7 percent of all employer firms and employ about half of all private sector employees. U.S. small businesses have generated 60 to 80 percent of annual net new jobs to our economy over the last decade and small businesses play an important role in U.S. trade flows, as small businesses comprise nearly 97 percent of all identified exporters, and produced 28.6 percent of total exports captured. OPIC recognizes the importance of small businesses as a key driver of U.S. economic growth, and actively seeks to partner with these firms in enabling their expansion overseas.

OPIC's efforts to reach out to small businesses have yielded positive results in Fiscal Year 2007. OPIC supported 111 new projects that involved small businesses, representing 79 percent of all projects supported by OPIC in Fiscal Year 2007. This includes:

- 41 projects received OPIC political risk insurance
- 35 projects received OPIC investment guarantees

- 35 projects received OPIC support in the form of direct loans, which totaled over \$290 million.

Since 1997, OPIC has provided over \$1.7 billion in direct loans to U.S. small businesses. In addition, of all active OPIC-supported projects, 13 include U.S. investors that are women- or minority-owned businesses.

Many small businesses benefit from foreign investment by larger U.S. firms. Larger companies often turn to small U.S. businesses for products and services to support an overseas project. During their first five years of operations, the projects OPIC supported in FY 2007 are expected to procure \$84 million from U.S. small businesses located in 21 states plus the District of Columbia, supporting 206 U.S. jobs.

OPIC collects data on the specific U.S. companies that will provide goods and services to OPIC-supported projects. This data help to ensure that procurement estimates are as accurate as possible and also to identify specific regions of the country benefiting from OPIC-supported foreign investments. According to the data collected for the fiscal years 1994 through 2007, OPIC has identified the specific U.S. suppliers for \$14.8 billion in expected procurement for OPIC-supported projects. These U.S. companies are located in 49 states, plus the District of Columbia and Puerto Rico.

It is estimated that approximately 51 percent of these identified suppliers to OPIC-backed projects are U.S. small businesses. Nearly all U.S. procurement associated with OPIC-supported projects is identified by specific product type, and in FY 2007, 61 percent of project-related U.S. procurement was identified by specific supplier. Investors are encouraged to provide as much detail as possible regarding their procurement of U.S. goods and services so that the positive impacts on the U.S. economy of OPIC-supported projects can be recorded fully and accurately.

## Host Country Development Effects

***In FY 2007, OPIC continued to refocus on the developmental impacts of all projects, and implemented a new matrix to measure the developmental impacts of financial services projects.*** OPIC's core mission is to promote private U.S. investment that will contribute to the economic development of the world's less developed countries. OPIC selects projects that are likely to serve as foundations for long-term economic growth, and that provide innovative products or services to emerging market countries. To further enhance OPIC's assessment of the relative benefits of the projects that it supports, OPIC created a new development assessment model specifically for financial services projects. The standard development matrix continues to be applied for the majority of OPIC-supported projects.

Over the past several years, OPIC support of financial sector projects has increased steadily. These projects include framework agreements, investment funds, mortgage finance and securitization projects, microfinance facilities, and general bank lending. It became evident that in many cases the development matrix, originally created for traditional "bricks and mortar" projects, did not capture accurately the developmental impact of these projects. OPIC created a specialized matrix that captures more accurately the developmental impacts of financial services-related projects and how these projects assist in developing the financial sector of emerging market economies.

The general structure of the financial services matrix is similar to the standard development matrix, but includes core indicators that are specific to financial services-related projects. For a detailed description of the methodologies employed for both the development matrix and the financial services development matrix, refer to Exhibits 5 and 6.

### ***OPIC Projects Score Well on Both Development Matrices.***

Beginning with FY 2007, all financial services sector projects were scored on the new development matrix, totaling 33 of the 139 committed projects. The average developmental score of the 33 projects that were scored on the financial services matrix was 90. Seventy<sup>4</sup> of the 139 projects were scored on the standard development matrix. The average developmental score of these projects was 85. OPIC's long-term goal is to achieve an average development rating of 100 across all business lines.

Two projects stand out as the most highly developmental projects that OPIC supported in 2007, including one project that was scored on the financial services matrix and one project that was scored on the standard development matrix.

For financial services projects, the most developmental project that OPIC supported involved a \$10 million investment guarantee to the Calvert Foundation, a non-profit organization, for the launch of its MicroPlace Fund, a new product that will expand Calvert Foundation's microfinance program, in collaboration with eBay. With OPIC support, the Calvert Foundation MicroPlace Fund will leverage more than \$170 million in much needed capital to microfinance institutions (MFIs) in the developing world, which will positively impact the income and quality of life for micro-entrepreneurs and their families.

MicroPlace, a wholly-owned subsidiary of eBay, is creating an online marketplace where retail (non-accredited) investors with investable assets can research, find, and make investments – as small as \$250 - in the microfinance industry. MicroPlace has been launched with the vision of creating a profitable company that concurrently generates social impact, financial returns and positive brand value. To accomplish this goal, the Calvert-MicroPlace partnership will harness new technologies that will allow MFIs unprecedented access to the U.S. retail market. This project is highly developmental on OPIC's financial services matrix due to the innovative nature of the project, its high-level of capital mobilization and augmentation of the financial sector, and the fact that it targets an underserved sector of the economy.

On the standard development matrix, a power project in Egypt received one of the highest development scores. The project involves OPIC political risk insurance coverage of an investment by Apache Corporation for continued oil and gas exploration and development activities on 18 existing concessions in the Western Desert region of Egypt, and a new development project in the Nile Delta deepwater area. The project will create several hundred permanent local jobs, including managerial and technical positions. All employees receive training, some conducted overseas. Employee benefits are offered, including significant gender specific benefits such as extended maternity leave and childcare. The project will be a significant contributor to local community development programs, most notably 200 one-room schools for Egyptian girls built by Apache and operated by the U.S. nonprofit Springboard – Educating the Future. The project will provide strong infrastructure improvements as the project expands crude oil and natural gas production throughout the country, with the majority of output to be consumed by the host country. Finally, the project will have strong fiscal benefits, as the Government of Egypt will receive annual tax payments.

***In Fiscal Year 2007, OPIC focused its activities in low- and middle-income developing countries, providing an important source of employment and tax revenue for these economies.***

The projects supported by OPIC in FY 2007 will provide significant economic and social benefits for developing host countries. The projects are expected to generate 21,599 jobs in developing countries directly, of which 10,050 (or 47 percent) are projected to be in skilled (management and professional)

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<sup>4</sup> Performance bid bonds, insurance coverage for existing assets, and framework and fund subprojects that had not disbursed by 9/30/07 were not evaluated on either development matrix. This comprises 36 of the total 139 projects.

positions. Forty-four of the FY 2007 projects are ventures with local partners, 17 of which feature equal or majority local ownership.<sup>5</sup>

Seventy-one projects (51 percent) are located in low-income countries, such as the Democratic Republic of Congo and Haiti, while 59 projects (43 percent) are located in middle-income developing countries, such as Russia and Turkey.<sup>6</sup> Nine projects (6 percent) are located in high income countries, with seven projects in Mexico, a country that “graduated” from medium-income to high-income only two years ago, two in Poland, and one in South Korea.<sup>7</sup> The concentration of projects in low- and middle-income countries, over 94 percent of the projects that OPIC supported in Fiscal Year 2007, demonstrates OPIC’s success in fulfilling its mission to focus on countries most in need.

The total initial host-country expenditures for Fiscal Year 2007 projects are projected at \$3.5 billion. This procurement of local raw materials, services, and semi-finished goods will support economic activity and employment in the host countries. The OPIC-supported foreign enterprises are expected to generate \$419 million annually in taxes and duties for the host countries. Once in operation, the projects will generate an estimated \$173 million in annual export earnings for the host countries.

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<sup>5</sup> Financial services projects were not included in the local partnership project count, though most of these project do include collaboration with a local partner.

<sup>6</sup> As defined in OPIC’s statute, low-income countries are classified as those with per capita GNP of \$984 or less in 1986 dollars. Middle-income countries are those with per capita GNP of \$985-\$4,268 in 1986 dollars.

<sup>7</sup> Despite this change in classification, over 20 percent of the Mexican population lives on less than \$2.00 per day, indicating that there is significant income disparity within the country.

**Table 2**

<b>Estimated Developmental Impacts of Fiscal Year 2007 Projects</b>	
<i>Host Country Effects</i>	<i>Amount or Number (thousands of \$ or # workers)</i>
<hr/>	
A. Foreign exchange benefits <sup>1</sup>	
Exports generated	\$173,651
Imports replaced	\$ 82,724
<i>Total A</i>	\$256,375
<hr/>	
B. Foreign exchange costs <sup>1</sup>	
Capital outflows	\$439,350
Project imports	\$239,524
<i>Total B</i>	\$678,874
<hr/>	
Net foreign exchange impact (A less B) <sup>1</sup>	(\$422,499)
<hr/>	
Net annual taxes, revenues and duties paid to the host country <sup>1</sup>	\$419,274
<hr/>	
Initial local expenditures	\$3,516,848
<hr/>	
Local employment generated in fifth year of operation	
Technical and management	10,050
Skilled and unskilled labor	<u>11,549</u>
<i>Total</i>	21,599
<hr/>	
<sup>1</sup> Average annual amount over a 5-year forecast period.	

Approximately 93 percent of the output associated with FY 2007 projects will be sold in host country markets. For projects that will export to third countries, Exhibit 2 (at end of document) shows a break-out of the final destination of output for FY 2007 investments over the first five years of operation.

### III. ENVIRONMENTAL IMPACTS

The Environmental Impacts section of OPIC's 2007 Policy Report is the first year environmental considerations of OPIC-supported projects have been presented in this format. Beginning with this Annual Policy Report, this section replaces the stand-alone OPIC Annual Environmental Report. Specifically, this section will report information related to environmental screening and assessment, annual emissions reporting as well as introduce and summarize any other environment-related policy matters undertaken by OPIC during the previous fiscal year.

#### Fiscal Year 2007 New Initiatives Summary

Since 1985, OPIC has had a strong environmental mandate, incorporated into its authorizing statute and articulated most fully in Appendix A of OPIC's Environmental Handbook. ([www.opic.gov/doingbusiness/investment/environment/documents/opic\\_env\\_handbook.pdf](http://www.opic.gov/doingbusiness/investment/environment/documents/opic_env_handbook.pdf)).

In Fiscal Year 2007, OPIC undertook several new initiatives to enhance and strengthen its implementation of that mandate, including efforts to increase the transparency of OPIC's project assessment process, development and implementation of a Greenhouse Gas Initiative, and enhanced monitoring of active OPIC-supported projects. These initiatives are discussed in detail in this section and the Monitoring section.

#### Project Screening and Assessment

OPIC screens all applications to identify the risk of adverse environmental and social impacts of a project and to identify project impacts that could preclude OPIC support on categorical grounds. If a project is determined to be categorically ineligible, OPIC immediately informs the applicant so as to avoid any unnecessary effort or expense. If the project is categorically eligible, OPIC categorizes the project to determine the requirements for documentation, disclosure, consultation, reporting and post-commitment monitoring. Projects may be categorized as A, B, C or D, with Category A representing the greatest potential for adverse environmental and/or social impacts.

#### ***OPIC Utilizes a Rigorous Methodology for Assessing and Calculating Potential Environmental Impacts.***

Environmental assessment is the process used by OPIC to evaluate the environmental and social impacts of an applicant's project and to identify the means to improve the project by preventing, minimizing, remediating or compensating for adverse impacts as a condition of OPIC support. The process includes the following:

- Identification of potential adverse environmental and social impacts;
- Disclosure of the project's environmental impact assessment (EIA) for public review and comment when the project has been screened as Category A;
- Comparison of the project's performance in relation to internationally-accepted standards and alternative approaches;
- Evaluation or design of mitigation measures;
- Evaluation or design of associated management and monitoring measures.



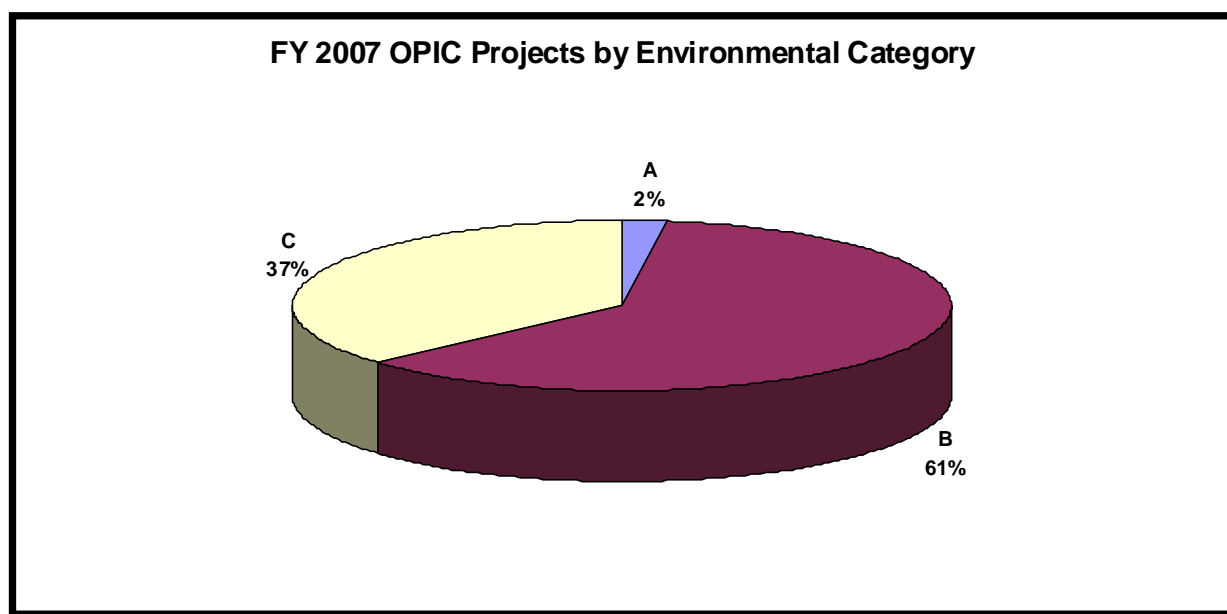
Three of the 139 OPIC-supported projects in Fiscal Year 2007, or two percent, were classified as Category A; that is, likely to have significant adverse environmental and/or social impacts that are sensitive, diverse or unprecedented in the absence of adequate mitigation measures. These three projects required the preparation of full EIAs, which were subsequently disclosed to the public for comment.

Eighty-five (61 percent) of the 139 OPIC-supported projects were screened as Category B. Category B projects are likely to have limited adverse environmental and/or social impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.

Fifty-one Fiscal Year 2007 projects (37 percent) were screened as Category C projects. Category C projects are likely to have minimal or no adverse environmental and/or social impacts.

To avoid double counting and confusion, OPIC is no longer reporting on Category D projects in this annual report. Category D is reserved for projects implemented by financial intermediaries such as investment funds or financial institutions that make investments in, or provide financing to, identifiable projects or enterprises ("Subprojects") engaged in activities within Categories A, B or C. Subproject investments are now included within the annual project counts.

**Figure 4**



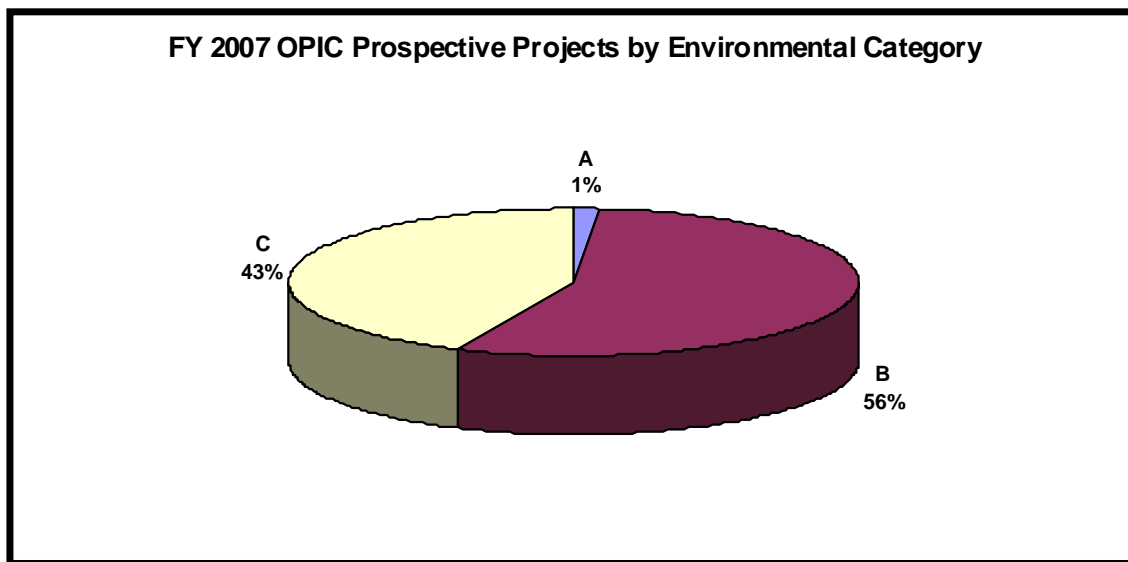
***The 139 OPIC-supported projects for FY 2007 are a subset of the 260 projects reviewed by the Office of Investment Policy.***

A more complete picture of OPIC's environmental activities can be illustrated by the 260 prospective insurance and, finance projects reviewed by the Office of Investment Policy during FY 2007. Many of these projects continue to be reviewed on credit, underwriting, or policy grounds and may ultimately receive OPIC support.

As illustrated in Figure 5, of the 260 project reviews initiated by OPIC's Office of Investment Policy during FY2007, three projects (1 percent) were categorized as Category A activities. These projects included a copper mine, ethylene storage facility and a thermal power plant.

The 112 projects (56 percent) screened as Category B involved housing construction, provision of humanitarian relief services, small manufacturing operations, small agribusinesses, leasing operations, bottling plants, hotels and ecotourism initiatives, among others. The 88 projects (43 percent) classified as Category C that were reviewed in Fiscal Year 2007 included telecommunications, cable television, mortgage financing, on-lending to microfinance institutions, and other banking activities.

**Figure 5**



***OPIC's Environment Group Conducts Extensive Due Diligence on All Category A Projects.***

As part of OPIC's environmental assessment process, OPIC environmental officers periodically conduct on-site due diligence prior to a commitment of OPIC support. OPIC conducted due diligence on seven projects in seven countries in FY 2007 including:

- an ethylene storage facility in Pakistan;
- a copper mine in the Democratic Republic of Congo;
- a hydroelectric power plant in Mexico;
- a marine services port in Kazakhstan;
- a thermal power plant in Jordan;
- a port in Egypt; and
- a natural gas pipeline in Yemen.

The following examples illustrate the diversity and novelty of some of the projects assessed by OPIC during FY 2007:

**MATH Hydro Power (PVT) Ltd.**

OPIC provided a \$4.3 million direct loan to a U.S. investor for the construction and operation of a 5MW hydroelectric power plant in south central Sri Lanka. Although the project includes the construction of a small diversion weir, the investor has committed to maintenance of downstream base flows throughout the year. The project also implemented several unique operational procedures to insure normal feeding and ranging behavior of the Toque Macaque, a small primate commonly found in the project area. The project will sell electricity to the government-owned utility.

**SEP Energy India Pvt. Ltd.**

OPIC provided political risk insurance for a U.S. investor to support projects involving the purchase and installation of two small wind turbines on existing wind farms in India. The turbines are 250 KW and will be located in the state of Maharashtra. In the case of both farms, the electricity generated by the turbines will be sold to the State Electricity Board.

#### AES Jordan PSC

This project involves the development, construction and operation of a 370 MW gas-fired combined cycle power project to be implemented as a 25-year concession under a Build, Own, and Operate structure. The power plant will consist of two gas turbines, an associated heat recovery steam generator (HRSG) and a single steam turbine. The plant will be located approximately 14 km east of Amman near the village of Al-Manakher on a 42-acre site to be leased from the Ministry of Finance/Department of Lands and Survey. The plant primarily will burn natural gas, but will use distillate fuel oil when natural gas is not available.

The electricity generated by the plant will be exported to the Jordanian national grid network through a 400kv substation that will be constructed adjacent to the site by the National Power Electric Company (NEPCO). The project also will require a 10 km transmission line to connect with the existing power grid. Water will be supplied to the power plant through an 18 km water line to be built, owned and operated by the Water Authority of Jordan (WAJ). The project was competitively bid and is the first independent power project in Jordan.

#### Transactions Rejected on Environmental Grounds

OPIC rejected one application for insurance in FY 2007 on the basis of categorical ineligibility. This application was related to a rubber export project in Liberia that involved the sourcing of raw rubber from a critical forest area. For reasons of business confidentiality, OPIC does not disclose the name of investors, foreign enterprises, or projects at issue.

## **Transparency**

On September 21, 2006, OPIC announced its Anti-corruption and Transparency Initiative. This initiative builds on efforts by the agency to enhance the clarity of OPIC's activities and its commitment to creating a level playing field for lawful business activities. By demonstrating that profitable international investment is compatible with evolving best practices for corporate social responsibility, the initiative also supports OPIC's developmental mandate, resulting in improved delivery of project benefits. Key elements of the initiative include improved information disclosure and improved coordination with locally affected communities.

*Improved Information Disclosure.* In FY 2007, OPIC redesigned its web site to facilitate public access to a greater amount of environmental and social impact information. The OPIC web site now enables public access to full text, non-business confidential versions of environmental and social documentation for Category A projects being considered for support by the Agency. This documentation includes Environmental Impact Assessments, Baseline Environmental Audits, Environmental and Social Management and Monitoring Plans, and Remediation Plans. These documents are now available for reference after completion of the statutorily mandated 60 day public comment period.

In addition, OPIC now discloses host country notifications for Category A projects. OPIC is required by statute to notify host country governments of any environmentally sensitive investment considered for support prior to execution of the applicable OPIC agreement. This notification must include a summary of applicable international guidelines that would apply to the investment, and any restrictions related to public health or safety that would apply to the project if it were undertaken in the United States.

Finally, OPIC will post on the web site third party audit certifications for Category A projects. During the tenure of OPIC support, all Category A projects are required to undertake a third-party environmental and social audit of operations. OPIC receives a certification from the third-party auditing entity verifying that

the audit has been conducted and that Category A projects are in compliance with all environmental and social conditions contained within the OPIC agreement.

***OPIC publishes for public comment information on all Category A projects.***

In Fiscal Year 2007, seven potential Category A projects under consideration for OPIC support were disclosed on OPIC's website for 60 days and announced via the OPIC list server, giving the public and nongovernmental organizations full opportunity to request copies of the EIAs or Baseline Audits, and to comment on the projects' environmental and social impacts. All transactions that required approval by OPIC's Board were publicly disclosed for at least 60 days prior to the Board vote on the transactions. Beginning in the fall of 2007, full text versions of EIAs and Baseline Audits are available for download directly from the OPIC website.

In response to the posting of these seven project EIAs, public comments were received on two projects. One of these projects was removed from OPIC consideration prior to the Environment Group responding to the submitted set of comments regarding that project. Comments also were received regarding the Tenke Fungurume mining project in the Democratic Republic of the Congo. These comments were reviewed closely and analyzed by OPIC's Environment Group, and the complete set of comments and OPIC's response to those comments were provided to the OPIC Board of Directors for their consideration prior to the Board vote. A written response also was issued to the author of the comments. A summary of the concerns posited, and OPIC's written response, was released to the public. (<http://www.opic.gov/news/pressreleases/2007/documents/tenke.pdf>).

## **Climate Change Mitigation**

In 1998, following a stakeholder dialogue, OPIC began tracking and reporting the climate change implications of the power sector projects of OPIC-supported projects using a methodology consistent with guidance available from the Intergovernmental Panel on Climate Change (IPCC), the World Bank Group, and others. Using this methodology, OPIC undertook annual estimates of the CO<sub>2eq</sub> emissions from these power sector projects during the preceding fiscal year and published the results in its Annual Environmental Reports. In addition, OPIC published a cumulative greenhouse gas (GHG) report for the years 1990–1999, and issued an update to the cumulative report in its Fiscal Year 2003 Annual Environment Report.

In Fiscal Year 2004, OPIC adopted the World Business Council for Sustainable Development (WBCSD) and World Resources Institute's Greenhouse Gas Protocol ("Greenhouse Gas Protocol") as its accounting and reporting system. Under the Greenhouse Gas Protocol, emissions from a particular facility are categorized in three distinct scopes, as defined below:

**Scope 1:** All direct greenhouse gas emissions of a company or organization, with the exception of direct emissions from biogenic sources;

**Scope 2:** Indirect greenhouse gas emissions of a company or organization from the consumption of purchased electricity, heating, cooling or steam;

**Scope 3: (Optional):** Other indirect emissions associated with the lifecycle of products or services associated with the company or organization's activities

OPIC uses the EPA's power profiler website to generate a supplier-specific conversion factor of 1.096 lbs CO<sub>2eq</sub>/kWh for its calculation of indirect emissions (Scope 2) associated with electricity consumption. For Scope 3, OPIC uses a mass balance methodology, similar to that used by the IPCC and the World Bank Group, the U.S. Department of Energy and the U.S. Environmental Protection Agency, to quantify CO<sub>2eq</sub> emissions from overseas thermal power projects where OPIC provided financial services or insurance to

a U.S. investor, lender or contractor (OPIC assumed no significant carbon dioxide emissions from hydroelectric or wind-turbine projects). (<http://www.epa.gov/cleanenergy/powerprofiler.html>)

## Fiscal Year 2007 Reporting

As illustrated in Table 3, OPIC reports no direct (Scope 1) emissions associated with its activities because OPIC has no direct CO<sub>2eq</sub> emissions. OPIC reports indirect (Scope 2) emissions totaling 1,312 metric tonnes of CO<sub>2eq</sub> associated with its purchase of electricity. In addition, in order to maintain its commitment to tracking and reporting climate implications, OPIC is reporting voluntarily Scope 3 direct emissions associated with the new power sector projects that OPIC supported during Fiscal Year 2007

In reporting Scope 3 emissions, OPIC committed support to seven power projects in seven countries with a total capacity of 636.25 megawatts (MW). Measured in terms of MW capacity, these projects are approximately 97 percent thermal (with natural gas and diesel as fuel sources), 2 percent hydroelectric and 1 percent wind powered. Two combined cycle projects, accounting for 470 MW of total capacity, are designed to use natural gas as a fuel source but may use diesel fuel as a fuel source if natural gas is not available. To be conservative in the estimation of greenhouse gases from these projects, for the purpose of calculating Scope 3 emissions, it was assumed that these facilities will use diesel fuel for 100 percent of their fuel source needs. The third thermal power project will use only natural gas.

As illustrated in Table 3, assuming full capacity operations, the three thermal power projects could emit approximately 2,927,000 metric tons of carbon dioxide (CO<sub>2eq</sub>) per year.

**Table 3: OPIC FY 2007 CO<sub>2eq</sub> Emissions (in metric tonnes)**

	SCOPE 1 EMISSIONS	SCOPE 2 EMISSIONS	SCOPE 3 EMISSIONS*
OPIC	0	1,312	2,927,000

\* Includes emissions from FY 2007 OPIC-supported power sector projects for which owner/operator would typically report direct (Scope 1) emissions.

### OPIC's New Greenhouse Gas Initiative

Demonstrating its commitment to responsible and sustainable investment, in FY 2007 OPIC adopted a policy to reduce greenhouse gas emissions associated with projects that receive OPIC support, and to increase support for renewable and clean energy projects. The goal of the new policy is to reduce the direct greenhouse gas emissions associated with projects in OPIC's active portfolio by 20 percent over a ten year period (2008 – 2018). For the purpose of this policy, "active portfolio" is defined as all insurance contracts in force and all guaranty and direct loans with outstanding principle balance.

The baseline that will be used to assess progress toward this goal is the sum of direct emissions from projects with significant emissions of greenhouse gases to which OPIC provided a commitment between 1974 and 2007 and which were in OPIC's active portfolio on March 31, 2007. Projects with significant emissions of greenhouse gases are defined as those projects with direct emissions exceeding 100,000 tons of CO<sub>2eq</sub> per year within the following sectors: combustion installations; oil and gas extraction and transportation; mineral oil refineries; coke ovens; metal ore roasting and sintering; production of pig iron and steel; rotary kiln production of cement clinker; glass manufacturing; and pulp and paper production. Beginning in FY 2008, baseline and annual accounting and reporting will be subject to independent third party verification.

## IV. LABOR AND HUMAN RIGHTS

### ***OPIC tracks countries' eligibility as part of its statutory obligations.***

OPIC support in a country is subject to a country-level statutory criterion, specifically whether a country is taking steps to adopt and implement "internationally recognized worker rights," as defined under the Trade Act of 1974. The Generalized System of Preferences (GSP) program, a trade benefits program overseen by the Office of the U.S. Trade Representative (USTR), has parallel statutory requirements for GSP beneficiary countries. For U.S. Government-wide consistency on country-level determinations based on this particular "taking steps" standard, OPIC follows the USTR's actions on country eligibility for the GSP program on worker rights grounds. When a country becomes ineligible for the GSP program on grounds other than worker rights, or in some exceptional cases where the grounds for a country's GSP eligibility or ineligibility have not been established firmly, OPIC makes its own country eligibility determination, oftentimes in consultation with the U.S. Departments of State and Labor, and relevant members of its Board of Directors.

OPIC follows closely the USTR's petition and review process, including their Trade Policy Staff Committee's (TPSC) final determinations on these reviews. During FY 2007, no countries regained their GSP benefits, and hence their eligibility for OPIC programs on worker rights grounds. Similarly, no countries became ineligible for GSP benefits or OPIC programs on worker rights grounds. However, for its 2007 GSP Annual Review, the USTR accepted petitions to review formally the GSP status of the following countries on worker rights grounds: Bangladesh, Niger, Uzbekistan, and the Philippines; OPIC will implement in its own programs the TPSC's final determinations of these countries' GSP eligibility.

Historically, as a result of USTR's GSP and/or OPIC's own determinations, OPIC programs have been suspended in 15 countries<sup>8</sup> on account of their failure to meet the statutory "taking steps" standard. In a number of those countries, including Liberia and Chile, GSP and OPIC programs have been restored as a result of progress in adopting and implementing internationally recognized worker rights standards. At the present time, the following countries remain ineligible for OPIC programs on worker rights grounds: Belarus, Maldives, Qatar, Saudi Arabia, Sudan, and the United Arab Emirates.

### ***OPIC places contractually binding worker rights conditions on every project it supports.***

At the project level, OPIC's statute requires that projects assisted by OPIC do not "contribute to violations of internationally recognized worker rights." These rights include: the right of association; the right of organization and collective bargaining; a prohibition on forced or compulsory labor; minimum age for employment and a prohibition on the worst forms of child labor; and acceptable conditions of work with respect to minimum wages, hours of work, and occupational health and safety. OPIC also includes statutorily required standard worker rights language in every insurance contract, and every finance and investment funds agreement. The language prohibits explicitly the use of forced labor and requires the investor to respect the rights of association, organization, and collective bargaining, and to observe applicable laws with respect to minimum age and wage requirements, hours of work, and occupational health and safety.

In certain cases, the applicable laws of the host country or the implementation of such laws may not meet internationally recognized worker rights standards. In these instances, and as a condition of OPIC support, OPIC requires further that the investor meet the relevant International Labor Organization's (ILO) standards for internationally recognized worker rights through additional contractually-binding conditions. Such contract conditions typically refer to non-discrimination on account of union activities, minimum age

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<sup>8</sup> Historically, these countries include: Belarus, Maldives, Sudan, UAE, Saudi Arabia, Qatar, Liberia, Central African Republic, Chile, Nicaragua, South Korea, and Mauritania. Some countries (e.g., Chile and Liberia) regained GSP and/or OPIC eligibility as a result of steps taken to implement internationally recognized worker rights standards.

of workers, payment of minimum wages, timely payment of wages, limits on hours of work, and rights related to hazardous work situations. In FY 2007, all OPIC-supported projects were subject to a full worker rights review, and OPIC support was conditioned upon contractual adherence to internationally recognized worker rights standards. Supplemental contract conditions addressing one or more of these rights were included in an overwhelming majority of these clearances.

***The Labor and Human Rights Group conducts on-site due diligence for particularly sensitive proposed new projects.***

For projects deemed particularly sensitive upon initial project review, OPIC may conduct additional due diligence at the project site prior to issuing approval on worker rights or human rights grounds. A variety of factors may determine whether a potential project warrants on-site due diligence, including general country- or sector-level labor and human rights sensitivities, location, project size and size of workforce, potential for the use of child and/or forced labor, and the nature of the work conducted at the project, including the level of hazardous work activity.

The number of potential projects that warrant on-site due diligence varies yearly. In FY 2007, OPIC conducted due diligence site visits to two projects: 1) a copper mine in the Democratic Republic of the Congo, and 2) a cut flowers project in Colombia. After site visits and a full review of each project, it was determined that the projects could be given OPIC support with the appropriate contractually-binding covenants to bring each project into compliance with the relevant worker rights and human rights statutory requirements.

## **Human Rights**

The promotion of respect for basic human rights is essential to successful OPIC-supported projects, and OPIC recognizes the importance of human rights in its programs and project evaluation process. The OPIC human rights clearance process is designed to ensure that OPIC-supported projects meet their statutory requirements, as required by the Foreign Assistance Act. For all potential projects, OPIC works in close consultation with the U.S. Department of State's Bureau for Democracy, Human Rights and Labor (DRL), prior to making a final commitment. Since 1990, OPIC programs have been suspended by statute in the People's Republic of China.

In FY 2007, OPIC strengthened further its human rights clearance process with DRL by developing a quarterly system of updates and checks to improve the consultation process and to keep apprised of human rights matters that could be affected or impacted by potential OPIC projects. Every project considered for OPIC financing, insurance or for investment by an OPIC-supported Fund in Fiscal Year 2007 was subject to a human rights review.

OPIC focuses attention on human rights at projects in all sectors and supports multi-stakeholder initiatives such as the "Voluntary Principles on Security and Human Rights." The Principles provide guidance on safety, security, and human rights for companies in the extractive and energy sectors. OPIC encourages signatories to the Voluntary Principles to implement them to the best of their ability in OPIC-supported projects.

## V. MONITORING OF ACTIVE PROJECTS

### FY 2007 Monitoring Activity

OPIC considers monitoring active projects an important part of the project oversight process and undertakes two types of project monitoring: site monitoring and self monitoring.

Site monitoring involves field visits to OPIC-supported projects that (1) have been randomly sampled by the monitoring team, (2) have been designated as sensitive for at least one of OPIC's statutory disciplines (*U.S. economic impact, host country developmental impact, labor and human rights, environment*), or (3) are located in close proximity to other projects that are planned for site-monitoring.

Self monitoring requires the Project investor to complete a "Self-Monitoring Questionnaire" (SMQ) annually - the SMQ reports on the Project's actual results from the most recent fiscal year. A new, more user-friendly website for this questionnaire is currently being developed and should be functional by mid-2008.

Information gathered during both site monitoring and self monitoring are similar, but site-monitoring involves more detailed and qualitative discussions between OPIC personnel and representatives of the OPIC-supported project. In addition, OPIC site monitors projects to ensure compliance with relevant conditions and covenants in OPIC support agreements.

FY 2007 represented a major change in the way OPIC implemented and performed its monitoring responsibilities. In previous years, the various statutory disciplines were implemented individually with separate monitoring programs and schedules. Starting in FY 2007, OPIC integrated the site monitoring process so that, in one visit, OPIC endeavors to monitor for all of the statutory disciplines for each selected OPIC project.

In total, over 220 OPIC projects were either site monitored and/or self monitored in FY 2007.

One objective of site monitoring is to monitor those projects that present the greatest environmental and social risk. Accordingly, the monitoring of Category A projects represented over 27 percent of the site visits performed in FY 2007. As a result of site monitoring, projects mainly were found to be in compliance with OPIC contract conditions pertaining to environmental and/or social considerations. The majority of instances in which a deficiency was noted involved a delay in submitting required documentation in a punctual manner. In these instances the project investor was informed of the delay and in multiple instances the appropriate documentation was submitted accordingly. If the documentation or other requested information was not promptly received following the site visit, OPIC issued a formal letter to inform the project of its non-compliance. Other issues raised and resolved by monitoring included incorrect usage of property, plant, and equipment, or improper waste management procedures.

With regard to worker rights issues, none of the projects site monitored was found to be out of compliance with OPIC's contractual requirements. Commitments to the OPIC worker rights requirements were demonstrated during monitoring. Monitoring also provided OPIC with a more complete understanding of country conditions. Site monitoring also often revealed a strong commitment by U.S. businesses to contribute to local communities in ways that extended above and beyond the OPIC's contractual requirements, such as initiatives on social certification programs and general job skills training.

U.S. economic and host country developmental impact site monitoring concluded that no projects were out of compliance with conditions precedent, and all projects were determined to have quantifiable host country developmental impacts.

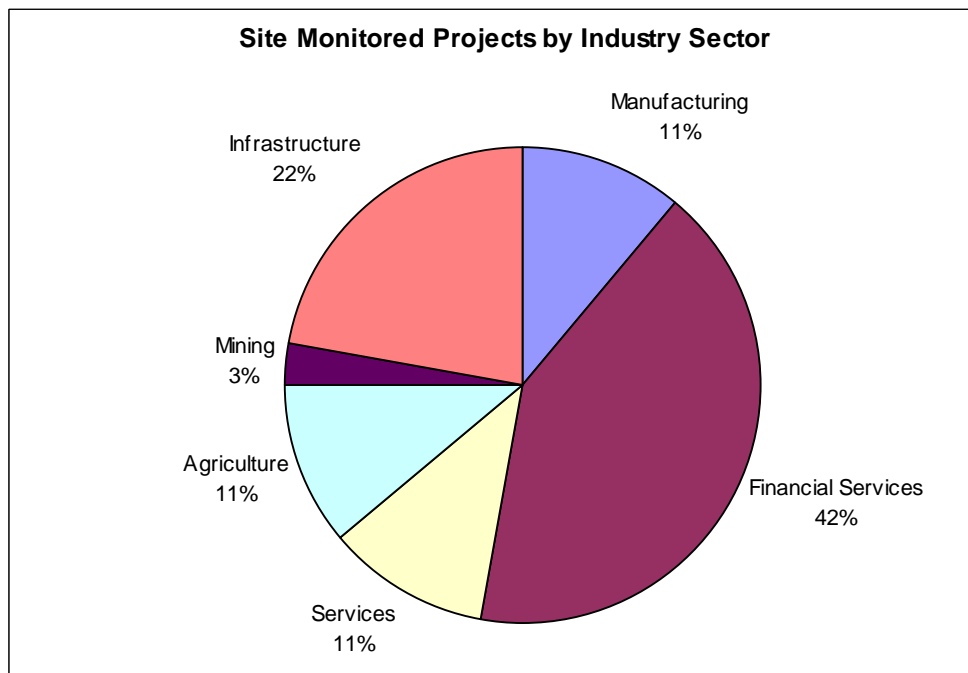


The following sections provide additional detail on the results of OPIC's FY 2007 monitoring.

## Site Monitoring

In FY 2007 OPIC site monitored 36 projects located in various sectors in almost all world regions. The figures below provide a breakdown of the locations, sectors, and products involved for projects site-monitored in FY 2007.

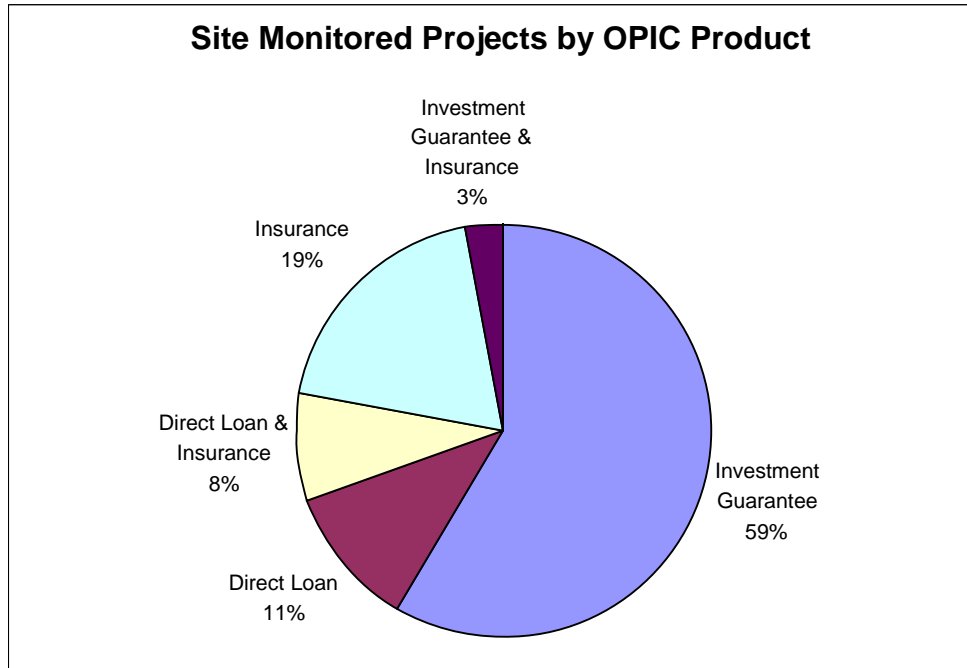
**Figure 6:**



Reflecting the shift in the OPIC portfolio over the past few years toward financial services investments, in FY 2007 OPIC monitored a significant number of projects in this sector. Financial services projects are often easier to monitor in volume, as many of these projects are located in larger cities in developing countries.

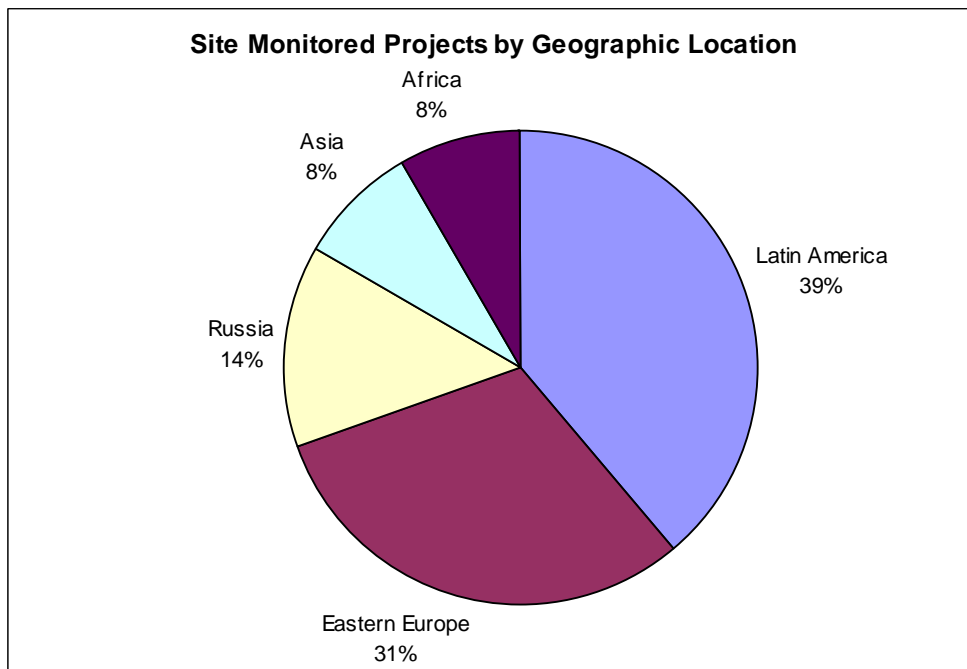
The focus on financial services also is reflected in the percentage breakdown of projects monitored by OPIC product line. Most financial services projects are supported through OPIC investment guarantees and this is reflected in the projects site-monitored by OPIC product in FY 2007.

**Figure 7:**



Geographically, the majority of projects monitored in FY 2007 were in Latin America and Eastern Europe. This is mainly due to a large number of microfinance facilities visited in Central America, and a significant amount of correspondent banks site-monitored in Turkey (Eastern Europe).

**Figure 8:**



## FY 2007 Monitoring Observations

### *Latin America*

In FY2007 OPIC site monitored 14 projects in Latin American for statutory compliance. One project of note is the Seminole Cattle Ranch outside of Managua, Nicaragua. The project is involved in upgrading the quality of breeding, dairy, and beef produced in Nicaragua. Additionally, it is implementing advanced technology and U.S. standards for its operations and products. From a technology, management and operational standpoint, the ranch is considered one of the most advanced in Central America. Aside from these broad developmental benefits, the project employs approximately 90 workers from an impoverished, rural area of Nicaragua, provides them with generous benefits, and trains them in advanced cattle ranching techniques. The workers receive training on nutrition and management, and the ranch brings in technicians from the U.S. and Mexico to train its workers on dehorning, managing the cattle, and harvesting embryos. Additionally, the ranch is improving the local environment through reforestation in several areas of the ranch. This project has a minimal U.S. economic impact. It does not export or import to the U.S., nor has it had any capital flows to the U.S. besides its insurance premia paid to OPIC.

Another Latin America project monitored in FY 2007 is the Manquiri silver mine in Bolivia. The project expects to produce at least six million ounces of refined silver per year. Though the mine is not yet at its fully-staffed employment level, the operation currently employs 60 full-time staff located in La Paz, and 40 employees on location in Potosi. In addition, 650 contractors have worked on the project through Fluor International. The project has worked proactively to partner with cooperatives and the local community to build a positive relationship with all parties involved. This has included the construction of a school, introduction of electricity to the resettlement location and the resettlement of seven families residing in Jesus de Machaca, a village located on one of the mine sites. In addition, Manquiri is working with the cooperatives to fund (with an initial contribution of \$300,000 and subsequent contributions as a percentage of profits) and establish a non-profit organization called FUNDESPO, to provide local services and be managed by the local community. With respect to benefits, each employee receives complimentary transportation to and from work, hot lunches, and access to a medical clinic. The project company also provides a performance bonus and short-term insurance. All employees are trained in first aid and are provided personal protective equipment. Lastly, Manquiri is committed to preserving the natural environment in the area, and is doing this by refurbishing centuries-old aqueducts that have been designated a World Heritage Site. Although the project is behind its projected operational date, the company has made significant progress toward commencing operations despite a turbulent political environment.

### *Asia*

OPIC monitored three projects in Asia this year. Preferred Brands International (PBI), which received a loan from OPIC, is an excellent example of a well-managed OPIC project that is both developmental and a successful going concern. The company is an industry leader in its market space and has developed a successful strategy to take advantage of a rapidly growing segment of the international convenience foods industry in the U.S. The project's most important direct impacts are a combination of micro and macro achievements. On the micro side, the project has strong employment effects, training, and social benefits. In addition, the company is run by a dedicated and aggressive management team and supports several community outreach projects. Monitoring efforts revealed a high level of employee loyalty, which was demonstrated through a particularly high employee retention rate. Additionally, among PBI's employee benefits, management matches contributions to an education fund to help pay for schooling fees of the employees' children. Environmentally, PBI has adopted biomass as its fuel source, which has cut the company's energy costs in half while also significantly reducing the company's fuel burning emissions.

On the macro side, PBI provides a strong demonstration effect as an Indian food manufacturing company that can compete successfully in the U.S. marketplace, especially with demanding vendors such as Costco Wholesale, Trader Joe's, and Whole Foods Market. PBI is the only Indian company able to provide consistent and high-quality, ethnic foods at volumes required by U.S. supermarkets and warehouse companies.

In FY 2007, OPIC monitored the India portfolio of Clearwater Capital Partners, an OPIC-supported distressed debt fund. Monitoring revealed that Clearwater's India portfolio has some positive developmental impact.

The main developmental impacts of Clearwater India are liquidity provision and strategic advice to high potential, yet operationally-challenged companies. Clearwater's strengths lie in its abilities to make sound judgment calls on management capacity and sector/industry viability. Thus, after making a portfolio investment the task becomes one of steering and guiding until the investment goals are reached. Clearwater's activities have developmental impacts at the portfolio company level in terms of sustaining and improving company operations and turnover. The Fund has cleared over \$33 million in non-performing bank debt from the Indian financial system to date.

#### *Africa*

OPIC monitored three projects in Africa in FY 2007. OPIC's lending into Flamingo Holdings, a floriculture project in Kenya, occurred at a critical time, as the company was commencing an aggressive growth and product mix redistribution phase. Flamingo is a highly developmental project, having created more than 1,800 permanent new local jobs. The company provides training for its workers, using a training matrix that ensures all workers have adequate knowledge on subject matter relevant to their specific job functions. The project provides excellent benefits to its employees and the local community. All workers receive daily transportation to and from work, hot meals while at work, free medical care, and a subsidized drug benefit.

The project has a firmly established Corporate Social Responsibility program, is very familiar with various social certification programs and hence is monitored regularly on worker-related issues by certification groups. The company also funds the local hospital, which offers free HIV testing and prevention to the community. To prevent competition with domestic cut flower production, OPIC restricted Flamingo Holdings from selling its products in the United States. Monitoring confirms that Flamingo only sells its products in the U.K. market, which is the destination for less than one percent of U.S. fresh cut flower exports. This assures the project does not have a negative impact on the U.S. flower industry.

Another project site monitored in FY 2007 in Africa is South Africa Plywood (SAP). This investment by an OPIC-supported fund into South Africa Plywood also occurred at a critical time, as the plant would otherwise have been closed. Keeping the plant open has enabled SAP to compete more efficiently in the plywood market and to retain its significant percentage of market share in the region.

South Africa Plywood is a developmental project, having created 162 permanent new local jobs. The company provides induction training for all workers that covers all safety and corporate best-practice policies. SAP provides a maize nutritional supplement to its workers on a monthly basis, and offers use of an on-site health clinic for primary care to all employees. The health clinic also provides HIV outreach and prevention services to all employees. The project provides some local community-oriented benefits. SAP has a newly created "Corporate Development Manager" who is currently revising the company's social-responsibility plans. SAP expects to focus on education programs for local residents and currently provides donations to three area high schools. There are no negative U.S. economic impacts associated with this project.

#### *Eastern Europe/Russia/Caucasus*

In FY 2007, 15 projects were monitored in Eastern Europe, Russia, and the Caucasus. A number of the investments were correspondent banking projects in Turkey. Correspondent banking projects are loans made to foreign banks through a U.S. bank. OPIC participates in this structure by guaranteeing the loan made by the U.S. bank to the foreign "correspondent" bank. OPIC guaranteed funds are used for specific purposes such as lending to small- and medium-sized enterprises, or for mortgages. OPIC has supported many of these projects in Turkey, and site monitoring has confirmed that OPIC support has allowed the correspondent banks to offer borrowers financing at longer tenors and lower rates than they would without the OPIC investment guarantees. Thus, entire new populations of bankable clients are

able to access financing that otherwise would be effectively locked out given constraints in the domestic lending environment.

One OPIC project in Russia involves a \$25 million investment in Flexa Ltd (“Flexa”), a wholly-owned subsidiary of OAO Polygrafoformlenie (“Polygraf”). Polygraph is one of Russia’s leading manufacturers of printed paper and plastic packaging materials. Flexa Ltd. is the subsidiary of Polygraf that produces “flex” packaging, which is mainly paper and plastic wrappers for individual candies, bags of potato chips, and other foods. The project involved the construction of a new 6,500 square meter building on the outskirts of St. Petersburg to house the Flexa subsidiary. This project is an effective, high-technology, sustainable employer that is part of a significant supply chain in Russia. In addition to this broad and important developmental impact, Polygraph also has a “Technology Development Department” dedicated to keeping it on the cutting edge of the printing business. This group has developed various wrapping products that are only offered by Flexa, and Flexa is the only company with the capability of fabricating these niche wrappers. Flexa is also ISO 9001 certified.

Monitoring revealed that employment levels at Flexa were reduced more than 35 percent due to the installation of the new and significantly more productive equipment purchased using the proceeds of the OPIC loan. OPIC support also led to significant capital investment which has created a large amount of capital allowances for Flexa. OPIC support has allowed Flexa to respond to significantly increasing demand in the amount of 15 percent per year and its financial performance has reflected this increase in capacity. As the project continues to increase capacity, it may increase staff levels. On the U.S. economic impact side, Flexa does not export to the U.S. or any of its major trading partners for printed goods. Therefore, the project does not have a negative impact on the U.S. economy or employment.

As is evident from the selected project examples above, OPIC supports a wide array of developmental projects in various sectors and industries. Site monitoring allows OPIC to document project compliance with conditions precedent in their OPIC loan agreements and insurance contracts, and evaluate each investment’s developmental impact. While the vast majority of projects site-monitored are free of issues, non-compliant projects are guided through a process to remedy their shortcomings. Additionally, the entire site monitoring process serves to inform OPIC on the future support of investments across regions and sectors worldwide.

## **Self Monitoring**

The Self Monitoring Questionnaire required by contract/agreement since 1993, is completed by all projects that have had OPIC support for at least one year. The analysis in this section is based on data obtained from nearly 200 Self-Monitoring Questionnaires (SMQs). Of the SMQs received in FY 2007, Table 1 below shows the percent of OPIC-supported projects which had certain quantifiable developmental impacts.

**Table 4: FY 2007 Self-Monitoring Results**

Capacity Measured	Qualitative Monitoring	Percent of Self-Monitored Projects Reporting Affirmative
Capital Mobilization	Involve Other Federal/Regional/Multilateral Organization	27.7%
	Involve a Public/Private Partnership	20.9%
Human Capital Development	Provide Overseas Training for workers	45.8%
	Have Equal Employment Policy	50.9%
	Have Policies for Women's Needs	72.3%
	Provide Company Benefits	79.1%
Corporate Social Responsibility	Help the Local Community	63.8%
	Preserve the Environment	41.8%
Technology and Knowledge transfer	Introduce Innovative Mgt Techniques	45.2%
	Introduce New Marketing Techniques	32.2%
	Introduce New Technology	27.7%
	Introduce New Products	29.9%
Economic Diversification	Contribute to Economic Diversification	45.2%
	Have Local Owner or Small & Medium Enterprise	20.3%
	Encourage Private Ownership	27.7%
	Help a Poor Region	62.7%

Capital Mobilization

One of OPIC's statutory objectives is to play a key role in leveraging private sector resources for development. The most obvious parameters to measure this is the involvement of non-OPIC project financing and equity, the involvement of other development institutions, and the promotion of Public-Private partnerships through the involvement of local development banks, civil societies and non-governmental organizations.

Of the 2007 Self Monitoring Questionnaires received by OPIC, approximately 28 percent reported the use of non-OPIC investment sources such as USAID, IFC, ADB, and EBRD or a host country government entity, civil society, or a non-governmental organization. In 2007, about 21 percent of OPIC supported projects involved a Public-Private Partnership (PPP). Examples of local government support may include a local government agency offering technical assistance, or a state agency providing construction support. The idea behind PPPs is to bring about local ownership in the project and to increase the number of stakeholders which would amplify the projects significance and support.

Human Capital Development

Employment generation is one of the key indicators OPIC uses to evaluate the developmental impact of projects it assists. The aim is not just to create jobs, but also to increase the overall skill level of the workforce through proper training and development. In 2007, approximately 46 percent of the SMQ respondents reported employees receiving training abroad. When these employees are trained in their

various job aspects outside of their home country, they are able to diffuse the same knowledge that they received abroad to the local employees, increasing the technical knowledge base of the population.

Company and employee benefits are another indication of a maturing employment market. In 2007, 79 percent of the SMQ respondents offered various company benefits to its employees such as transportation or meal subsidies, pension plans, medical coverage, etc. An equal employment policy is a way to protect discrimination on the basis of race, color, gender, religion, etc.; approximately 51 percent of SMQ respondents had an equal employment policy over and above that required by local law. Finally, about 72 percent of OPIC-supported projects had special policies and benefits in place specifically to benefit women in their workplaces.

#### Corporate Social Responsibility

Corporate Social Responsibility (CSR) defines organizations taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations. OPIC evaluates CSR in its projects by identifying socially responsible and environmentally conscious benefits that are offered to the greater community. For example, in 2007, 42 percent of the SMQ respondents sought to improve the environment. Sound environmental practices could include superior safety standards for workers in manufacturing facilities or proactive measures to protect natural resources. CSR also includes community outreach programs whereby the foreign enterprise allows public access to company-sponsored clinics and schools, funds community centers, sponsors sports teams and cultural events and provides financial support for local foundations and organizations. In 2007, 64 percent of the SMQ respondents were involved in community outreach programs through application of various programs.

#### Technology and Knowledge Transfer

These transfers include the dissemination of innovative management practices, marketing and distribution expertise, and adoption of new production technologies. Often they lead to the development and introduction of new products or services into emerging markets. These transfers frequently have a substantial effect on the host country by improving worker productivity levels and the quality of other factors of production. Moreover, additional impacts may be created through the diffusion and adoption of new technologies and ideas by other firms in the host country due to the implementation of these ideas by OPIC-supported investors.

OPIC seeks to gauge such transfers of technology and knowledge in its support. For example, in 2007, 45 percent of SMQ respondents introduced innovative management techniques in the host country while 32 percent introduced novel marketing methods. Furthermore, almost 28 percent of OPIC-supported projects sought to introduce new technologies in the host country, while almost 30 percent of projects introduced new products in foreign markets. Such practices assist the foreign enterprises trying to seek a competitive edge in the global market and lead to the strengthening of national capacities through development of a domestic technology base.

#### Economic Diversification

OPIC encourages private sector ownership of projects in order to promote entrepreneurial growth and sustainable development. Moreover, OPIC encourages economic diversification of the private sector as it decreases the local economy's dependence on international market swings and on domestic business cycles; and brings about overall macroeconomic stability.

OPIC measures the economic diversification impact of its investments through various indicators. Of the projects surveyed in 2007, approximately 45 percent contributed to the economic diversification of the country. This can be achieved by developing a new sector of economic activity such as introducing a home mortgage financing program in a country without such lending facilities. OPIC's products also extend credit to SMEs in order to encourage private sector investments in entrepreneurial endeavors which would lead to further economic diversification. As such, approximately 21 percent of OPIC's projects involved SMEs while around 28 percent encouraged private ownership. Finally, in order to facilitate widespread development in the country, OPIC recognizes the need for rural development in order to avoid creating income and developmental disparities between thriving cities and rural

communities. Sixty-three percent of OPIC-supported project reporting in FY 2007 were located in poor and affected regions in order to promote overall societal welfare and prosperity.



## **VI. EXHIBITS**

1. U.S. Employment and Associated Effects of OPIC-supported Projects
2. Breakout of Final Third Country Destination of the Output of OPIC-supported Projects
3. U.S. Employment Effects and Host-Country Location of OPIC-supported Projects
4. Methodology for Calculating Economic/Employment Benefits
5. Development Matrix Methodology
6. Financial Services Development Matrix Methodology
7. Methodologies for Site Monitoring

Exhibit 1

**U.S. EMPLOYMENT AND ASSOCIATED EFFECTS OF OPIC-SUPPORTED PROJECTS, FY 2007 (Projections)**

(All Dollar Figures are in Thousands)

Industry Sector	Number of Projects	U.S. Exports Generated 1/	Final Destination of Project Output 2/			Effect on U.S. Production 1/	Effect on U.S. Employment 1/ 3/			Effect on U.S. Trade Balance 1/
			Host Country	U.S.	3rd Country		Initial	Operating	Total	
<b>A. Projects with Positive Effects on Employment 4/</b>										
Agribusiness 5/	1									
Manufacturing	4	\$153,959	\$137,906	\$0	\$0	\$142,605	497	1,209	1,706	\$153,959
Minerals/Energy	5	\$403,140	\$283,257	\$3,400	\$71,900	\$335,118	4,126	183	4,310	\$386,140
Services	13	\$198,201	\$535,776	\$870	\$16,433	\$220,330	906	962	1868	\$193,851
<b>Positive Total</b>	<b>23</b>	<b>\$755,301</b> 6/	<b>\$956,939</b>	<b>\$4,270</b>	<b>\$88,333</b>	<b>\$698,054</b>	<b>5,529</b>	<b>2,354</b>	<b>7,884</b>	<b>\$733,951</b>
<b>B. Projects with Neutral Effects on Employment 7/</b>										
Agribusiness 5/	1									
Manufacturing	16	\$570	\$301,282	\$11,000	\$34,360	\$313	0	4	4	(\$54,430)
Minerals/Energy	7	\$565	\$7,627	\$0	\$0	\$565	4	2	5	\$565
Services	92	\$10,748	\$972,767	\$3,000	\$23,500	\$3,102	21	6	28	(\$4,120)
<b>Neutral Total</b>	<b>116</b>	<b>\$11,883</b>	<b>\$1,281,676</b>	<b>\$14,000</b>	<b>\$57,860</b>	<b>\$3,979</b>	<b>25</b>	<b>11</b>	<b>37</b>	<b>(\$57,985)</b>
<b>C. Projects with Negative Effects on Employment 8/</b>										
<b>Negative Total</b>	<b>0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$0</b>
<b>Net FY Total</b>	<b>139</b>	<b>\$767,184</b>	<b>\$2,238,615</b>	<b>\$18,270</b>	<b>\$146,193</b>	<b>\$702,033</b>	<b>5,554</b>	<b>2,365</b>	<b>7,920</b>	<b>\$675,966</b>

1/ Total effect during first five years of project operation.

2/ Average annual effect during first five years of project operation.

3/ Person years of employment.

4/ Projects with a U.S. employment effect of 2 or more jobs (10 person years or more of employment during the first 5 years of project operation).

5/ There is one project within the Agribusiness sector in Section A (positive effects) and one project in Section B (neutral effects). To protect business confidentiality, the data for these projects is included in the data for the Manufacturing sector.

6/ Totals may differ slightly from the sum of individual sectors due to rounding.

7/ Projects with a U.S. employment effect of plus or minus 2 jobs (plus/minus 10 person years of employment during the first 5 years of project operation).

8/ There were no projects supported in fiscal 2007 that resulted in the loss of any U.S. employment.

Exhibit 2

**BREAKOUT OF FINAL THIRD COUNTRY DESTINATION OF  
THE OUTPUT OF OPIC-SUPPORTED PROJECTS, FY 2007 (Projections)**

**PROJECTS WITH POSITIVE EFFECTS ON U.S. EMPLOYMENT 1/**

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**Agribusiness**

**Sector Total** \$0

**Manufacturing**

**Sector Total** \$0 2/

**Services**

China	\$1,740,000
EU/Russia	\$2,610,000
India	\$1,740,000
Iran	\$870,000
Kazakhstan	\$383,333
Turkey	\$2,610,000
UAE/Saudi Arabia	\$6,090,000
Ukraine	\$390,000

**Sector Total** \$16,433,333 2/

**Minerals and Energy**

Canada	\$4,500,000
France	\$10,130,000
Israel	\$1,970,000
Italy	\$39,500,000
Netherlands	\$4,200,000
Other	\$11,600,000

**Sector Total** \$71,900,000 2/

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**TOTAL POSITIVE  
EFFECTS** \$88,333,333

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**PROJECTS WITH NEUTRAL EFFECTS ON U.S. EMPLOYMENT 3/**

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<b>Agribusiness</b>		
	<b>Sector Total</b>	\$0
<b>Manufacturing</b>		
England		\$590,000
France		\$520,000
Germany		\$90,000
Iraq		\$6,146,341
Israel		\$70,000
Lebanon		\$4,682,927
Netherlands		\$445,000
Spain		\$590,000
Ukraine		\$445,000
Others (Syria, Egypt, Libya, Kuwait)		\$20,780,488
		<u>\$34,359,756 2/</u>
<b>Services</b>		
Azerbaijan		\$3,000,000
Holland		\$1,500,000
Kazakhstan		\$10,000,000
Uzbekistan		\$9,000,000
	<b>Sector Total</b>	<u>\$23,500,000 2/</u>
<b>Minerals and Energy</b>		
	<b>Sector Total</b>	\$0
<hr/>		
	<b>TOTAL NEUTRAL EFFECTS</b>	<u>\$57,859,756</u>
<hr/>		
	<b>FY TOTAL</b>	<u>\$146,193,089</u>

1/ Represents projects with a U.S. employment effect of 2 or more jobs (10 person years or more of employment during the first 5 years of project operation). There were no projects supported in fiscal 2007 that resulted in the loss of any U.S. employment.

2/ Totals may differ slightly from the sum of individual countries due to rounding.

3/ Represents projects with a U.S. employment effect of plus or minus 2 jobs (plus/minus 10 person years of employment during the first 5 years of project operation). There were no projects supported in fiscal 2007 that resulted in the loss of any U.S. employment.

**Exhibit 3 -- U.S. EMPLOYMENT EFFECTS AND HOST-COUNTRY LOCATION OF OPIC-SUPPORTED PROJECTS, FY 2007**

**A. PROJECTS WITH POSITIVE EFFECTS ON EMPLOYMENT <sup>1/</sup>**

<u>COUNTRY/REGION</u>	<u>AGRICULTURE</u>	<u>MANUFACTURING</u>	<u>SERVICES</u>	<u>MINERALS &amp; ENERGY</u>	<u>TOTAL</u>
Multi-Regional			1		1
<b>Total Multi-Regional</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>
Poland		1	1		2
Russia		1	4		5
Ukraine				1	1
<b>Total Europe</b>	<b>0</b>	<b>2</b>	<b>5</b>	<b>1</b>	<b>8</b>
Iraq			2		2
Egypt				1	1
Jordan				2	2
Lebanon			1		1
<b>Total Middle East &amp; N. Africa</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>3</b>	<b>6</b>
Afghanistan	1		1		2
Pakistan		1			1
India			1		1
<b>Total South Asia</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>4</b>
Africa Regional					0
Cameroon			1		1
Congo, DRC	1				1
Liberia			1		1
Togo				1	1
<b>Total Africa</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>4</b>
<b>TOTAL POSITIVE</b>	<b>2</b>	<b>3</b>	<b>13</b>	<b>5</b>	<b>23</b>

1/ Projects with a U.S. employment effect of 2 or more jobs (10 person years or more of employment during the first 5 years of project operation). There were no projects supported in fiscal year 2007 that resulted in the loss of any U.S. employment.

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Exhibit 3 -- U.S. EMPLOYMENT EFFECTS AND HOST COUNTRY LOCATION OF OPIC-SUPPORTED PROJECTS, FY 2007 (continued)

**B. PROJECTS WITH NEUTRAL EFFECTS ON EMPLOYMENT 1/**

<u>COUNTRY/REGION</u>	<u>AGRICULTURE</u>	<u>MANUFACTURING</u>	<u>SERVICES</u>	<u>MINERALS &amp; ENERGY</u>	<u>TOTAL</u>
Armenia			1		1
Azerbaijan			1		1
Bulgaria			1		1
Georgia		1	1		2
Kazakhstan			1		1
Kyrgyz Republic			1		1
Russia			11		11
Serbia and Montenegro			3		3
Tajikistan			1		1
Turkey		2	4		6
Ukraine			2		2
Uzbekistan			1		1
<b>Total Europe</b>	<b>0</b>	<b>3</b>	<b>28</b>	<b>0</b>	<b>31</b>
Multi-Regional			1		1
<b>Total Multi-Regional</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>
Egypt		1			1
Iraq	1	6	1	1	9
Jordan		1			1
Lebanon			7		7
West Bank and Gaza			1		1
<b>Total Middle East &amp; N. Africa</b>	<b>1</b>	<b>8</b>	<b>9</b>	<b>1</b>	<b>19</b>
Afghanistan			3		3
Bangladesh			2		2
India				2	2
Nepal			1		1
Pakistan		1	5		6
Sri Lanka			1	1	2
<b>Total South Asia</b>	<b>0</b>	<b>1</b>	<b>12</b>	<b>3</b>	<b>16</b>

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Exhibit 3 -- U.S. EMPLOYMENT EFFECTS AND HOST COUNTRY LOCATION OF OPIC-SUPPORTED PROJECTS, FY 2007 (continued)

<u>COUNTRY/REGION</u>	<u>AGRICULTURE</u>	<u>MANUFACTURING</u>	<u>SERVICES</u>	<u>MINERALS &amp; ENERGY</u>	<u>TOTAL</u>
Cambodia			1		1
East Timor			1		1
Fiji			1		1
Indonesia			2		2
Mongolia			1		1
Philippines			1		1
South Korea			1		1
Thailand			1		1
Vietnam			1		1
<b>Total East Asia</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>0</b>	<b>10</b>
Brazil		1	1		2
Colombia			1		1
Costa Rica			1		1
Guatemala			2		2
Haiti			1		1
Honduras			4		4
Latin America Regional			1		1
Mexico	1		5		6
Nicaragua			3		3
Panama			1		1
<b>Total Latin America</b>	<b>1</b>	<b>1</b>	<b>20</b>	<b>0</b>	<b>22</b>
Africa Regional			3		3
Liberia		1	2		3
Nigeria			3		3
Somalia			1		1
South Africa		1	3		4
Tanzania			2		2
Uganda			1		1
<b>Total Africa</b>	<b>0</b>	<b>2</b>	<b>15</b>	<b>0</b>	<b>17</b>
<b>TOTAL NEUTRAL</b>	<b>2</b>	<b>15</b>	<b>95</b>	<b>4</b>	<b>116</b>

Continued on next page

Exhibit 3 -- U.S. EMPLOYMENT EFFECTS AND HOST COUNTRY LOCATION OF OPIC-SUPPORTED PROJECTS, FY 2007 (continued)

**C. PROJECTS WITH NEGATIVE EFFECTS ON EMPLOYMENT**

<u>COUNTRY/REGION</u>	<u>AGRICULTURE</u>	<u>MANUFACTURING</u>	<u>SERVICES</u>	<u>MINERALS &amp; ENERGY</u>	<u>TOTAL</u>
<b>TOTAL NEGATIVE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**D. TOTAL PROJECT EFFECTS ON EMPLOYMENT**

<b>TOTAL EFFECTS:</b>					
<b>Positive, Neutral &amp; Negative</b>					
<b>ALL OPIC COUNTRIES</b>	<b>4</b>	<b>18</b>	<b>108</b>	<b>9</b>	<b>139</b>

- 1/ Projects with a U.S. employment effect of plus or minus 2 jobs (plus/minus 10 person years of employment during the first 5 years of project operation).  
There were no projects supported in fiscal year 2007 that resulted in the loss of any U.S. employment.



## EXHIBIT 4. METHODOLOGY FOR CALCULATING U.S. EMPLOYMENT EFFECTS

Each project seeking OPIC support is reviewed on a case-by-case basis to estimate its U.S. employment effects. OPIC obtains estimates from the investor of the projected initial and operational procurement from the United States by value and specific type of good or service. The U.S. employment generated by a project's initial and five-year operational procurement of goods and services is estimated by considering the *direct and indirect* employment necessary to produce those goods and services. That is, the employment effects incorporate the direct employment necessary to produce the procured goods and services, as well as the indirect employment required for the production of the associated intermediate inputs.

OPIC details each type of U.S. good or service procured for each project and calculates the employment effect in that industrial sector as well as in the sectors that supply necessary components or inputs. By using this methodology, OPIC is able to ascertain employment-generation levels with greater precision than if it used an across-the-board average for all U.S. exports. By including indirect effects, OPIC's employment figures present a more accurate picture of the benefits accruing to U.S. workers from the procurement of goods and services. Finally, to confirm its estimates, OPIC monitors *actual* economic effects after project start-up and throughout the life of the OPIC's involvement with the project. OPIC's monitoring is described in further detail in the Monitoring section.

## EXHIBIT 5. OPIC'S DEVELOPMENT MATRIX EXPLAINED

OPIC supports projects that are likely to serve as foundations for long-term economic growth, especially those that improve upon the host country's infrastructure and provide the basic human necessities of shelter, food, water and health care – these types of projects are assessed on OPIC's standard development matrix. Through this development impact assessment, OPIC evaluates and scores every proposed project in 26 key areas across three broad categories that objectively quantify its expected contribution to host-country development.

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

A project must score at least 50 on the matrix to be considered *developmental* and clearly eligible for OPIC support. A score of 100 or more qualifies a project as *highly developmental*.

## EXHIBIT 6. OPIC'S FINANCIAL SERVICES DEVELOPMENT MATRIX EXPLAINED

As more of OPIC's projects focus on financial services, it became evident that in many cases the development matrix, originally created for traditional "bricks and mortar" projects, did not capture accurately the developmental impact of these projects. A new model was developed tailored to assessing the developmental impacts of financial services projects. The general structure of the financial services matrix is similar to the standard development matrix, but includes core indicators that are specific to financial services-related projects. These core indicators result in a development matrix that is a more comprehensive and accurate measurement of the developmental impact of financial services projects. The types of projects that are scored on the financial services matrix include framework agreements, investment funds, mortgage finance and securitization projects, microfinance facilities, and general bank lending.

To support its developmental mission, OPIC evaluates and scores every proposed project in 11 key areas across three broad categories that objectively quantify its expected contribution to host-country development.

- Category I covers financial instrument innovation or augmentation, multiplier/spillover effects, corporate governance, and capital mobilization and complementarity – four highly-weighted impacts that should be demonstrated by any project, regardless of sector or the level of economic development within the host country.
- Category II covers six additional development indicators within such broad areas as sustainability, economic diversification, human capacity building (job creation and training), social effects, macroeconomic and institutional effects, and technology/knowledge transfer. The degree to which projects demonstrate these additional developmental benefits depends significantly on the features of a given project.
- Category III adjusts for the host country's per capita GNP, reflecting both OPIC's priority to steer investment into the poorest countries and the reality that nations most in need often lack the capacity to support more developmentally sophisticated investments.

A project must score at least 50 on the matrix to be considered *developmental* and clearly eligible for OPIC support. A score of 100 or more qualifies a project as *highly developmental*.

## **EXHIBIT 7. OPIC SITE MONITORING METHODOLOGY**

### **(Statutory Disciplines: Environment, U.S. Economic Impact, Labor and Human Rights, Host Country Developmental Impact)**

OPIC performs comprehensive and integrated monitoring to evaluate the U.S. and host-country economic effects as well as the environmental, health and safety (EHS) and labor and human rights impacts of its projects. OPIC's integrated project monitoring is designed to ensure that each project complies with statutory and contractual requirements in these areas. Project monitoring consists of site visits to projects, in addition to the analysis of information submitted annually by investors in the form of an online "Self Monitoring Questionnaire." As of 1993, Self Monitoring Questionnaires are required of all investors per the OPIC finance agreement or insurance contract.

Using sampling theory, OPIC identifies investment projects that OIP staff across all disciplines will site monitor during a three-year period, drawing active projects that exhibit specific characteristics within the portfolio. OPIC currently is site monitoring projects that were supported by OPIC during fiscal years 2003 through 2005. The sample of projects selected for site monitoring includes: (1) a random sample of projects supported by the agency during a three-year period or "monitoring round"; (2) projects supported during this period that are sensitive with respect to U.S. economic effects, labor and human rights or environment, health and safety issues; and (3) projects from other years that have either not been site-monitored in the past or that fit in logistically with randomly sampled project in similar regions or countries. This "sensitive project" sample ultimately provides a conservative bias to the monitored results.

#### Labor and Human Rights

OPIC monitors projects for compliance with contractual worker rights requirements through a combination of annual reporting by companies as well as site visits to both random and selected samples of projects. OPIC targets its worker rights monitoring efforts toward countries and sectors with a higher potential for possible worker rights violations.

Because certain areas of worker rights violations may be difficult to identify from a typical project site monitoring visit, in instances when OPIC determines further investigation is warranted for a project, OPIC employs trained and certified labor rights auditors, usually recruited from the NGO community with reputations for impartiality and credibility among both the labor and business communities, to perform a full project audit. The auditors spend as much time as necessary to investigate thoroughly potential violations. At a minimum, an audit would include independent and confidential interviews with employees, management, government officials and knowledgeable local NGOs and organized labor groups.

In order to improve its monitoring process, the Labor and Human Rights Group continues to review and refine its on-site monitoring strategies, as well as its contractual instruments to communicate better to potential investors OPIC's expectations with respect to worker rights and how worker rights best can be protected under diverse project and corporate structures, particularly projects involving contractors and subcontractors.

#### Environment, Health, and Safety (EHS)

With respect to EHS issues, projects selected for site monitoring in a given year are prioritized based on an environmental and social risk rating. Environmental and social risk ratings are based on several factors including project sensitivity, host country context, project-level environmental and social management system, and investor experience in implementing projects of similar complexity. OPIC assesses the EHS and social performance of a project against applicable benchmarks including contract conditions, international standards and guidelines, and industry best practices. Factors included in the

performance assessment include an evaluation of the project's environmental and social management systems, the effectiveness of mitigation, including pollution controls in risk reduction, and the efficiency of the operations, including energy efficiency.

#### U.S. Economic Impact

All projects visited are evaluated for their actual impact on the United States and host country economies, including the employment generation effects of the investments. Those projects deemed sensitive with respect to U.S. economic effects are visited to ensure that they are not negatively impacting the U.S. economy. This exercise includes verifying export levels to the U.S. (if any) or to other countries, calculating the U.S. balance of payments impact, and verifying compliance with any restrictions put forward in the OPIC loan agreement or insurance contract (e.g. restrictions on exporting to the U.S. or significant U.S. export markets).

#### Developmental Impact

Regarding host country economic impact, projects are reviewed across the same criteria as used at the time of project approval. Thus, an "apples-to-apples" comparison can be made between original estimates and actual operations. For example, if a project originally expects to hire 100 local workers, actual employment numbers are verified and compared to the forecast. Additionally, if a project is expected to build a school for the children of its employees, this will be verified. Other developmental impacts not identified or anticipated at the time of application also are evaluated and quantified during site monitoring. Finally, the project is scored using actual findings against the initial developmental impact evaluation using the same criteria projected in the project's original OPIC clearance.