



Statement of Elizabeth L. Littlefield

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Chairman Poe, Ranking Member Keating, members of the Subcommittee, thank you for inviting me to testify here today. I am Elizabeth L. Littlefield, the President and CEO of the Overseas Private Investment Corporation.

OPIC is the U.S. Government's development finance institution. It mobilizes private capital to help solve critical development challenges and in doing so, advances U.S. foreign policy and national security objectives. OPIC does this by providing long term loans and political risk insurance to investors investing much-needed capital into these developing countries – capital that would not be invested there without OPIC's financing or risk mitigation. These investments also help American businesses gain footholds in emerging markets, catalyzing revenues, jobs and growth opportunities both at home and abroad. Currently, OPIC has 550 outstanding long term projects in 103 countries. The projects encompass critical infrastructure, education, health care, low-income housing, microfinance and other sectors that contribute to sustainable economic development.

Today many, if not most, OPIC projects have a national security dimension. More than one-third of our portfolio is in post-conflict nations – nations that border on conflicts and must deal with their spillover effects, or nations that are vulnerable to conflict because of persistent risk factors such as ethnic tensions, extremism or illicit activities. These priority countries for OPIC include nations such as Afghanistan, Iraq, Jordan, Egypt and Tunisia.

No other agency in the U.S. government exists for the strategic, economic and moral purpose of advancing markets through long-term investment by private business, investment that contributes to stability, improves the lives of people in developing nations and addresses critical needs.

The importance of this unique role of long-term, private investment for national security was established when OPIC was created in 1971 and has received growing bipartisan support ever since. In 1983 President Reagan offered his "congratulations" to OPIC for its "businesslike basis" and "its success in showing the private sector the benefits of full participation in the development process in the Third World". A decade later, President Clinton cited OPIC's model for contributing to national security as "small, efficient, and self-sustaining ... the very essence of good government."

The link between private sector investment, economic growth and national security is well-established. There is overwhelming evidence pointing to a causal link between poverty and violence.ⁱ Low per-capita income is "one of the most robust explanations for the outbreak and duration" of conflict. Poor nations, on average, experience a violent regime change every seven years; the average for the richest 10 percent of nations is every 60 years. Today, roughly 400 million of the extremely poor still live in fragile states, several of which possess weapons of mass destruction.

Further, the odds of conflict and terrorism are higher when the poor are predominantly young,ⁱⁱ which is precisely the pattern that exists in the 'Arab Spring' nations and post-conflict and fragile nations of strategic interest to the United States.

Put simply, OPIC aims to provide U.S. companies with otherwise unavailable market based finance so that they can invest in ways that stabilize communities and nations. This means that OPIC works closely with USAID and with the Defense community to help prevent conflict or restore communities and build the beginnings of a market economy following conflicts whether in Iraq, Rwanda or Ukraine. OPIC invests with the aim of creating tenable economies, not just transactions.

That is why OPIC's investment officers are working hard to support US investment into Ukraine today and into Tunisia and Egypt. That's why OPIC officers were on the ground in Central and Eastern Europe in the early 1990s, why they were on the ground in Bosnia, Croatia, and Albania in the late 1990s, and why they continue to be on the ground in Iraq, Afghanistan and conflict-vulnerable countries around the world. As I have been called upon to lead OPIC's efforts in conflict and conflict-vulnerable nations, I have travelled to Liberia, South Sudan, Afghanistan, and the West Bank. Recently, I travelled to Tunisia and Morocco. None are massive markets for U.S. goods and services now. They may become more significant markets in the future. But today, they are national security concerns, and they can be helped by the stabilizing force of jobs and opportunity through private investment.

It is worth underscoring, Mr. Chairman, that economic self-sufficiency – which is often reflected in reliable access to commercial credit – is OPIC's aim. If companies can obtain access to credit in the commercial markets, OPIC's work is done. We move on. Cases in point would be countries such as South Korea, the Czech Republic, or parts of Chile and Uruguay.

OPIC Background

In 1971, OPIC was made a free-standing agency so that its capital, operations and expertise could better augment the work of its sister agency, USAID. OPIC's governing statute directs it to operate under the policy guidance of the Secretary of State and to be fully self-sustaining. Thus, OPIC is an efficient, tangible and cost-free instrument of U.S. foreign policy.

Since its founding, OPIC has catalyzed over 4,300 developing country investments representing more than \$225 billion in total investment value. These projects have also supported over 500,000 host country jobs.

Over the last five years, OPIC has committed roughly \$3.2 billion to support micro, small, and medium sized enterprises throughout developing and emerging markets. These and other projects in OPIC's portfolio lent approximately \$21 billion to micro and small business enterprises (MSMEs) last year.

OPIC reduces risks for U.S. investors who are considering investing in poorer countries, but who would not otherwise be able to do so. OPIC uses loans, loan guaranties, political risk insurance and support for private equity funds to reduce these risks. However, OPIC does not eliminate risk to co-investors. Investors must have a significant amount of their own capital at risk in any OPIC transaction.

OPIC's participation must also be "additional" – that is, it must complement what commercial financial institutions can provide, but not duplicate it or compete with it. Projects that can be handled by the private sector without OPIC's support will not receive the agency's backing.

OPIC is development that pays for itself. For 37 consecutive years, OPIC has collected more than it has expended. Last year, OPIC reduced the federal budget deficit by \$358 million, according to Treasury's figures. This was more than five times the agency's operating costs. Over the past five years, OPIC has reduced the federal deficit by more than \$1.6 billion. The Agency continues to have net write-offs of less than 1% of its portfolio. Moreover, OPIC accomplishes this while investing in some of the poorest or conflict-vulnerable countries in the world, such as Afghanistan, Iraq, South Sudan, Jordan, or Egypt.

OPIC addresses the need for foreign investment with long time horizons. The U.S. is home to the largest and most highly-developed capital markets in the world. But entrepreneurs focusing on developing countries frequently have difficulty accessing these capital markets, particularly for the kinds of long-term investments and very small projects that make significant contributions to development, including stabilization of post-conflict economies and support for critical needs in conflict-vulnerable nations. OPIC facilitates that access.

OPIC and National Security

OPIC is a quick, tangible, effective, and lean government tool of foreign policy. For example, following the Arab Spring, the agency was able to get “on the ground” with small teams, screen investments, conduct due diligence on partners and projects, and back high impact projects that can help create the foundation for future economic growth. Working in close contact with the Department of Defense and USAID, our role is to “crowd in” private capital to help build the foundations of a domestic market economy as our troop levels pull down.

- In Afghanistan, for example, OPIC has a portfolio of 13 projects, representing over \$185 million in exposure. Projects include a wool processing plant, a beverage bottler, and road building companies. The OPIC-financed SME lending facility, in partnership with USAID, is now supporting over 30 job creating mid-sized businesses in the country.
- In Iraq, OPIC’s investment portfolio includes 6 projects, valued at \$189 million, including a dredging project to reopen the country’s waterways and its hydroelectric power.
- In Pakistan, OPIC has 15 active projects, worth \$621 million, including a biomass power plant, microfinance on-lending, and the expansion of healthcare facilities, including the building of a neonatal and pediatric intensive care unit.
- In Jordan, now a refuge for an estimated 1 million refugees from the Syrian conflict – OPIC projects are delivering a quarter of that country’s electric power and over a fifth of the water flowing to its capital.
- In Egypt, OPIC provides political risk insurance to the country’s largest oil and gas facilities, representing a major investment by the Apache Corporation of Houston that has been able to sustain its operations through the upheavals following the Arab Spring.

OPIC is constantly reassessing and reevaluating its approaches to post-conflict or conflict-vulnerable nations. Several lessons are clear. Mobilizing private investment into these locations takes more than addressing issues of infrastructure, currency stability, safety, or encouraging talented refugees to return. It takes time for investors to assess these markets, obtain technical assistance, assemble local partners, successfully press for necessary investment climate reforms, secure political risk insurance, and of course work with co-investors such as OPIC, who are willing to take a long view with their capital.

OPIC has applied this hard-won experience. Thriving, stable nations that are now staunch U.S. allies and partners in commerce, military, and foreign policy were once fledgling, unstable economies where OPIC previously supported frontier market investments.

- Shortly after the fall of the Berlin Wall, for example, OPIC moved expeditiously into Eastern Europe, providing \$3.8 billion in insurance and finance within five years. This helped attract further investors to the region, accelerating a shift toward identification with the West and

market-based economies. In many cases, these newly independent countries chose membership in NATO and the EU.

- Within months of outbreak of conflict between Russia and the Republic of Georgia, OPIC was on the ground in Georgia, scouting out potential investment opportunities. Since then, OPIC has backed over two dozen projects in Georgia, valued at more than \$380 million – contributing to Georgia’s economic growth and its increasingly strong ties with the West.

OPIC’s Approach

OPIC’s approach offers several key advantages:

Generating Positive Development Impact

When OPIC invests, it establishes a long-term commercial relationship that requires collaboration, goodwill and a commitment to positive development impact that reduces poverty or improves lives.

Catalyzing Additional Investment

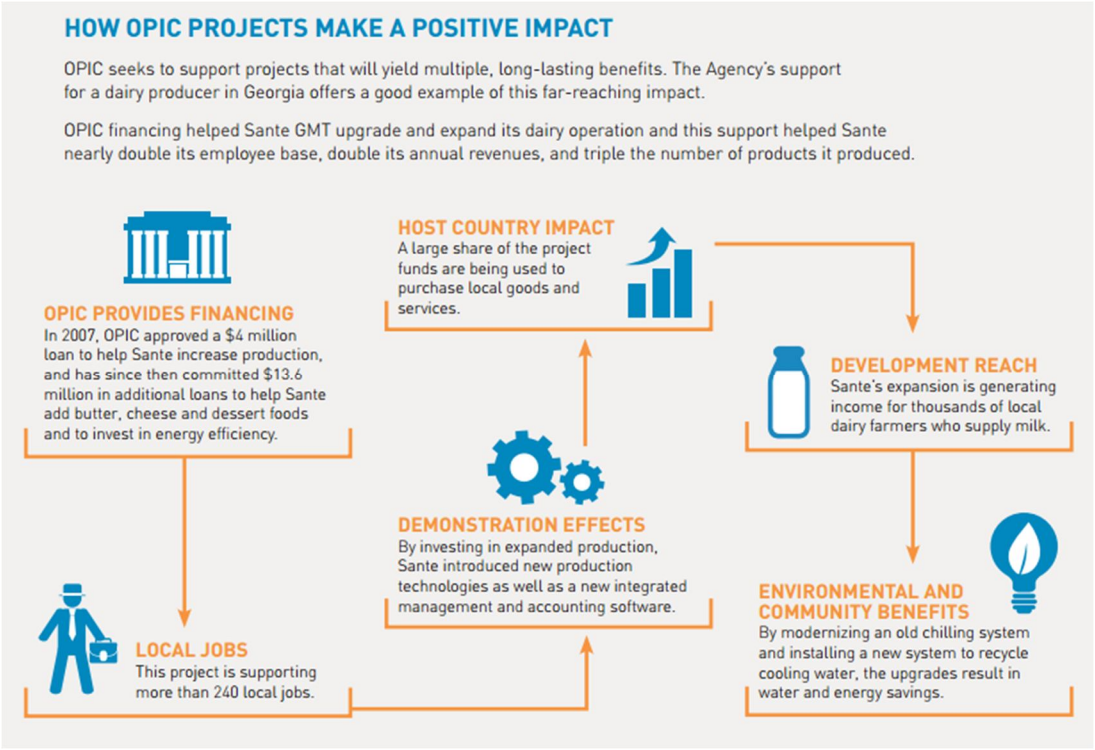
OPIC’s visible presence and long-term commitment of significant amounts of capital in a country helps reassure a wider group of investors that the country’s investment climate merits consideration. This frequently mobilizes further investments, beyond the investments that OPIC backs. Over its history, each \$1 in OPIC commitments has mobilized about \$2.46 in private-sector investment.

Applying Market Standards

OPIC requires an investment climate that supports the rule of law for foreign investors. Investors want, and will press for, reassurances from host-country governments about impartial dispute resolution, protections against the unlawful seizure of property, and the transparency of laws and rules. These “investment climate safeguards” are pillars of a viable commercial legal system.

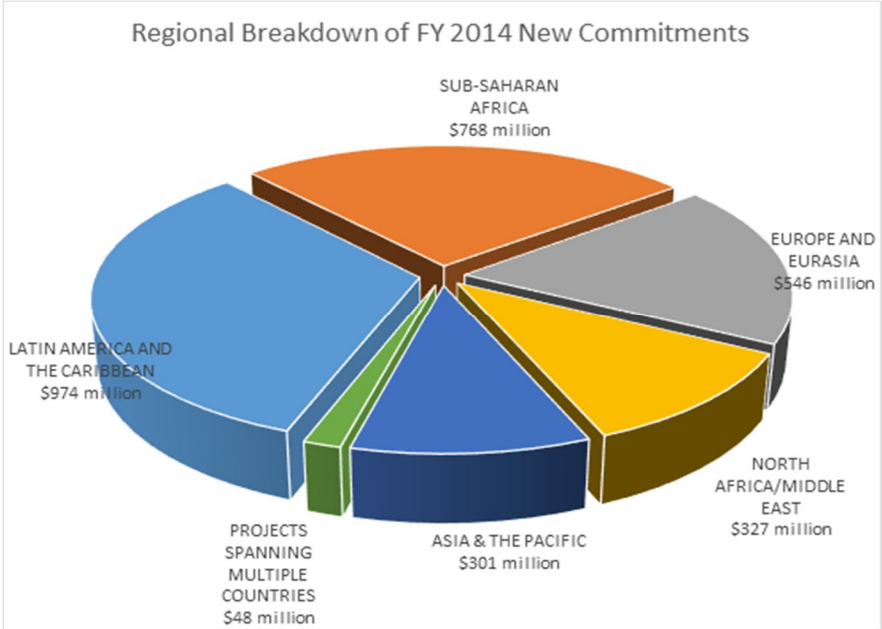
In underwriting and evaluating project proposals OPIC seeks both financial viability and development impact. That impact, which OPIC carefully analyzes and scores, is often indirect.

For example, here is the analysis that we used in evaluating the development impact of a dairy project in the Republic of Georgia, Sante GMT:



All of OPIC's work is in developing countries. The Agency aims for a balanced and diversified portfolio across these developing regions.

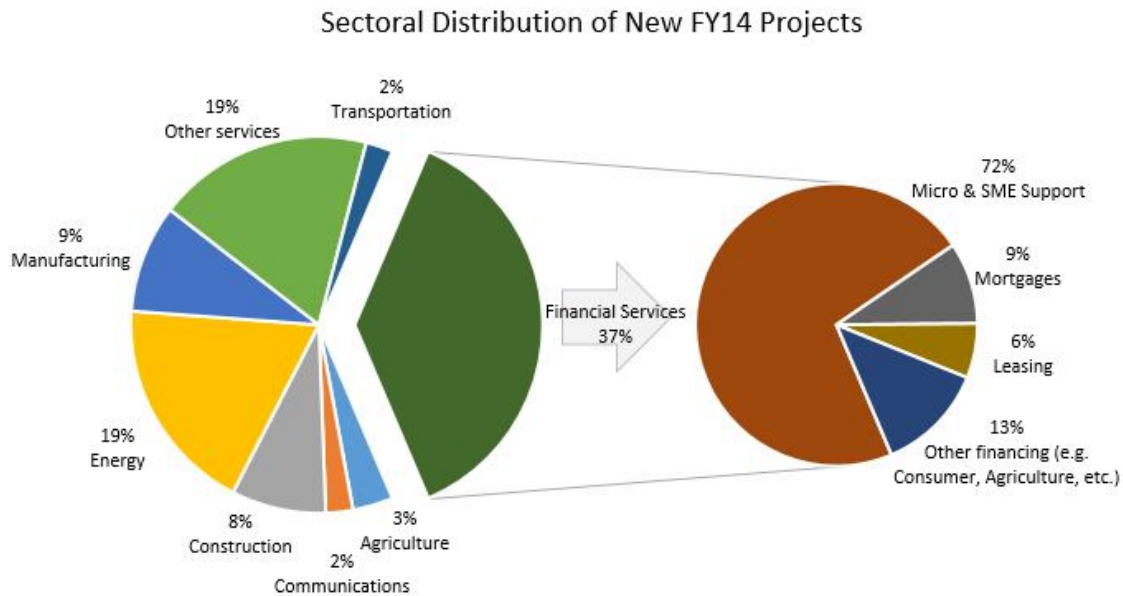
OPIC Key Regions:



In recent years, OPIC’s Sub-Saharan Africa portfolio has seen a steady growth, so that it has become the agency’s second-largest regional concentration, after Latin America and the Caribbean.

OPIC Priority Sectors

To help create and deepen capital pools in developing countries, OPIC often works through financial intermediaries that can meet the agency’s high standards of credit underwriting, character risk due diligence and environmental and social policies.



Thus when the “financial services” sector of OPIC’s portfolio is divided into subsectors, these different types of intermediaries can be highlighted. They include:

Microfinance and SME lending

In the finance sector, OPIC focuses on microfinance institutions and local banks that can make loans to microenterprises (generally, businesses with fewer than 10 employees), to small businesses (companies with 10-50 employees) and medium-sized enterprises (those with 50-200 employees).

Decades before microfinance became widely recognized as an effective tool for supplying small loans to individuals and micro-businesses, OPIC was using innovative financing for microlending in places facing tough development challenges, and to people who lacked access to traditional credit.



Microfinance borrowers at an OPIC-backed microlending center in Tanzania.

Today, OPIC supports dozens of successful microlending programs.

For example, through our partnership with a Bangladeshi development organization, OPIC has opened more than 100 new microfinancing branches in East Africa, serving an estimated 109,000 borrowers, 98 percent of whom are women.

Karur Vysya Bank in India, with OPIC's support, has in turn supported over 800,000 microfinance borrowers and 2 million small and medium enterprise borrowers.

Altogether, microfinance institutions that are backed by OPIC today reach more than 2 million borrowers. OPIC-backed loans to small and medium-sized businesses, provided through financial intermediaries like local banks, reach another 4 million borrowers.

Access to financial services through microfinance helps families improve income and invest in improved health care, year-round education for their children and empower women to take a bigger role in communities.

Affordable Housing

OPIC is also active in the housing sector, seeking reputable developers and builders of affordable housing. OPIC has worked closely with groups like Habitat for Humanity of Atlanta on housing projects in Africa and with companies like Inter-Mac of Arlington, VA on housing in Central America.

To address the severe shortage of safe, affordable housing with utilities like running water for low-income families in Central America, OPIC partnered with Inter-Mac to construct a community of basic homes that families can purchase for about \$100 a month. These houses cost about the same as make-shift structures on the market, and come equipped with water, electricity and sanitary facilities, as well as a community daycare center and elementary school.



OPIC-financed low-income housing project in Honduras.

Education

Among its education projects, OPIC is supporting Bridge International Academies, a brand of elementary schools catering to low income families earning less than \$2 per person per day. Using system-wide software and tablet computers, Bridge International efficiently delivers high quality, low-cost pre-primary and primary education for \$5 per child per month. Each school is projected to be profitable after two years.



Students and a teacher at a Bridge International School in Kenya.

With OPIC support, Bridge has expanded significantly, now aiming to enroll 800,000 students by 2022 in 665 schools, including 237 in Kenya, 210 in India, 185 in Nigeria, and 33 in Uganda.

Health care

Like much of Sub-Saharan Africa, Angola's healthcare infrastructure struggles to meet the demand of the region's heavy disease burden. With OPIC financing, a new medical clinic has opened its doors in Angola's capital city. The facility provides affordable treatment to the local community and has introduced new medical diagnostic capabilities, such as state-of-the-art MRI and CAT scan technology. The clinic also provides medical training programs designed to increase the level of care throughout the entire country.



Nurse and patient at an OPIC-financed clinic in Luanda, Angola.

Power generation

More than 600 million people in Africa lack access to electricity, limiting accessible healthcare, quality education, economic development, human capital, and overall opportunity. To address these needs, both Houses of Congress have been actively considering legislation to promote African electrification. As an agency with over forty years of experience in financing developing country power projects, OPIC is a key player in the effort to extend electricity access across the continent. Using a mix of thermal power and renewable energy, on- and off-grid, OPIC has been moving forward on African electricity projects.

- **Thermal**

For example, OPIC provided loans and political risk insurance to build a "tri-fuel" power plant (low-sulphur heavy fuel oil, light fuel oil and natural gas) in the Republic of Togo. Before this, the country had one of the lowest rates of per capital energy generation in the world. Today, the Lomé Power Plant has tripled energy production capacity in Togo, and is actually exploring power to neighboring countries, providing reliable competitively-priced power to millions in West Africa.



Lomé Thermal Power Plant, Togo.

- **Renewable – On-grid**

The Olkaria geothermal plant in Kenya was recently expanded with the help of OPIC financing. The plant is sited in an area of abundant hot springs and volcanic vents, which are tapped to produce electricity. The plant is helping Kenya produce 12% of its electricity from geothermal sources.



Olkaria geothermal power plant, Kenya

- **Renewable - Off-grid**

Most families in rural areas of Africa and Asia live off-grid, far from the reach of the national power grid. The business model that Simpa Power developed from this idea today employs more than 350 village entrepreneurs and is used by 45,000 beneficiaries in India. Buyers pay a very modest rental on the solar panel and the recharger. After 18 months, the system is unlocked and ownership is transferred to the buyer. OPIC's investment is helping Simpa continue to grow this successful business.



Indian home illuminated by electricity from a rent-to-buy Simpa solar panel

Renewable energy projects in Sub-Saharan Africa benefit from the Africa Clean Energy Finance (ACEF) project, a joint financing facility funded by the State Department and executed by OPIC and the U.S. Trade and Development Agency (TDA) in cooperation with USAID. So far, this facility has supported 30 clean energy projects in Africa. For example, ACEF provided \$400,000 for early-stage development costs for Gigawatt Global's 8.5 MW grid-connected solar power plant in Rwanda. This is Rwanda's first grid-connected solar photovoltaic project. It introduces a replicable renewable energy model to the country, and is increasing total energy output in Rwanda by 9.3%.

Small U.S. Businesses

OPIC also offers opportunities for American businesses that seek to gain footholds in fast-growing emerging markets. Over the past five years, smaller U.S. companies have accounted for about 70% of OPIC's direct financing transactions -- and many more if small businesses in the supply chains of larger ones are considered. There are also opportunities for small companies to serve as suppliers to OPIC projects abroad. To inform and attract these companies, OPIC conducts a series of outreach workshops, called "Expanding Horizons", across the country. To date, more than 3,000 small U.S. companies have participated in these workshops.

OPIC Audits, Monitoring and Evaluation

Audits

OPIC's financial statements have been examined each year since the agency was created by an independent financial auditor. The auditor reports to the Audit Committee of the OPIC Board of Directors. OPIC is honored to have received unqualified audits since 1971.

Policy compliance

Active OPIC-supported projects are required to report annually on host country development impact and relevant environmental, social, health & safety, and labor issues by completing a Self-Monitoring Questionnaire (SMQ). OPIC actively monitors projects in its portfolio through on-site monitoring of selected projects and the information provided through the Self-Monitoring Questionnaire. Site monitoring allows OPIC staff to ensure compliance and understand whether and to what extent a project succeeded. Yet its value extends beyond these functions. Through gathering, analyzing, and verifying information about projects, OPIC continually improves its development impact methodology, policy compliance practices, and investment strategy, which means better outcomes for U.S. investors and host country economies.

To most effectively use resources, OPIC selects sensitive projects for site-monitoring to uphold requirements that ensure there is no negative impact on the U.S. economy or local communities, and that labor, human rights and environment requirements are met. Additionally, projects are randomly drawn from OPIC's active portfolio for site visits. Further, projects with exceptional and particular sensitivities may be subject to audits conducted by a third party.

Development Impact

OPIC measures a variety of development impacts attributable to each of its proposed and current projects. Among these are human capacity building, demonstration effects of the business model or technology in the country, host-country revenue flowing from the project, and the reach of the project into underserved populations like poor, underdeveloped, and / or rural areas of the country.

One of the major benefits of OPIC's work is job creation in host countries. Jobs create opportunity and contribute to economic growth and stability. The projects OPIC committed to in 2014 are expected to support more than 9,000 host-country jobs. That's the equivalent to almost 40 jobs per OPIC employee.

Credit Considerations

Focusing on best practices, OPIC manages business risk in multiple ways. In-depth, multi-level underwriting is applied at the initial approval of each transaction, and the OPIC Portfolio Management Division actively monitors transactions over their lifecycles.


OPIC's goal is to maximize each project's ability to fully repay its debt and meet its developmental targets; therefore, part of that monitoring process may include loan modifications and restructurings. Each member of the Portfolio Management team is responsible for monitoring a group of loans in the portfolio.

OPIC prepares annual credit scores for the loans in its portfolio in conjunction with its post-disbursement loan review process. These scores feed into the overall agency budget process to adequately measure both the success of its transactions as well as any expected losses. Each individual transaction is linked to the larger picture of OPIC's portfolio at all times. Credit concentrations by geography and industry sector are carefully reviewed, and the lessons learned in lending to specific geographies and sectors are assembled and used to modify future underwriting standards.







This extensive financial and development review of the portfolio allows OPIC's management to develop well-tested goals for transaction origination and risk management – and to continually improve OPIC's effectiveness in meeting its mission and demonstrating its impact.

Room to Grow

In the past 40 years, most developed countries have created development finance institutions (DFIs) like OPIC, and many of these greatly exceed OPIC's capacities.



DFI Landscape in FY2012

	Sponsor	Total Portfolio	Staff (FTEs)	Total Portfolio per FTE	Profit	Profit per FTE	Portfolio as % of sponsor GDP	Overseas Offices	Equity Authority
	USA	\$16.4 B	220	\$74.6 M	\$272 M	\$1.24 M	0.11%	0	No
	Multilateral	\$45.8 B	3763	\$12.2 M	\$1.7 B	\$0.44 M	--	104	Yes
	Netherlands	\$7.8 B	306	\$25.5 M	\$180 M	\$0.59 M	1%	1	Yes
	Germany	\$7.4 B	480	\$15.3 M	\$163 M	\$0.34 M	0.22%	13	Yes
	France	\$4.3 B	170	\$25.4 M	\$49 M	\$0.29 M	0.17%	12	Yes
	United Kingdom	\$2.4B	65	\$42.7 M	\$288 M	\$4.43 M	0.11%	0	Yes

Source: 2012 Annual Reports. Data for FY 2012; values in USD

China, of course, is but the latest example. Last year, the Chinese DFI expanded its staff by more employees, and its portfolio by more dollars, than OPIC's total employee count and total portfolio value. The Chinese DFI is targeting areas of Chinese commercial and geopolitical interest, including Africa, Asia and Latin America.

Presently, OPIC is using just \$17.3 billion of its Congressionally-set cap of \$29 billion. OPIC is able to finance and insure only a fraction of the most deserving transactions it sees, and an even smaller fraction of other promising applications it receives.

OPIC's FY16 budget request calls for a funding increment that would be used for hiring more staff. With this increased staffing, OPIC could complete more transactions, have a greater development impact, return more money to the U.S. Treasury, and engage globally on a more effective basis with other Development Finance Institutions. With more staff, OPIC could complete more transactions, have a greater development impact, return more money to the U.S. Treasury, and engage globally on a more effective basis with other Development Finance Institutions.

In addition, OPIC looks forward to continuing engagement with this committee on a multi-year reauthorization. OPIC investments often span 18-20 years. A multi-year reauthorization is crucial to enabling the Agency to play its market-based functions and to enable U.S. businesses to be confident in using OPIC's financing commitments to win business abroad in planning with investors and potential investors.

Thank you again for this opportunity to appear here. I would be glad to take any questions at this time.

¹ Justino, Patricia, "Poverty and Violent Conflict: A Micro Level Perspective on the Causes and Duration of War" MICROCON Research Working Paper 6, January 2009. This paper includes a useful summary of literature over the past 15 years.\

¹ Cox, Gary, Douglass North, and Barry Weingast, "The Violence Trap: A Political-Economic Approach to the Problems of Development," September 2013.

¹ Udall, Henrik, "A Clash of Generations? Youth Bulges and Political Violence," *International Studies Quarterly*, 2006.