OFFICE OF INSPECTOR GENERAL

# ASSESSMENT OF THE OVERSEAS PRIVATE INVESTMENT CORPORATION’S DEVELOPMENT OUTCOME AND COMPLIANCE RISKS

REPORT NO. 8-OPC-15-002-S
MAY 15, 2015

FRANKFURT, GERMANY

*Office of Inspector General*

May 15, 2015

**MEMORANDUM**

**TO:** President and Chief Executive Officer, Elizabeth L. Littlefield

**FROM:** Regional Inspector General/Frankfurt, James C. Charlifue /s/

**SUBJECT:** Assessment of the Overseas Private Investment Corporation's Development Outcome and Compliance Risks (Report No. 8-OPC-15-002-S)

This memorandum transmits our final report on the subject risk assessment. In finalizing the risk assessment report, we considered your comments on the draft and included them in their entirety in Appendix II.

The risk assessment contains one suggestion but no recommendations, thus you are not required to take any additional action to address the findings.

Thank you and your staff for the cooperation and assistance extended to us during this effort.

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# ASSESSMENT RESULTS

The Overseas Private Investment Corporation (OPIC) is an independent U.S. Government coporation. It mobilizes private capital to achieve social and economic development in developing countries and those in transition from nonmarket to market economies while advancing U.S. foreign policy. According to its 2013 Annual Report, "OPIC works with American businesses that recognize the vast opportunities in the developing world, but need support to operate in these challenging environments." OPIC supports businesses by offering political risk insurance, loans, and investment guaranties.

OPIC is encouraged to be financially self-sustaining and generates revenues through its various financial products. According to its 2013 audited financial statements, OPIC received $17 million in insurance premiums and $231 million in interest and fees from its financial services. It held $5.4 billion in U.S. Treasury securities, in which it invested its retained earnings. It received $150 million in interest from the U.S. Treasury in 2013.

OPIC finances its loans by borrowing from the U.S. Treasury[1] and by selling certificates of participation (COPs). From the 2013 financial statements, OPIC's U.S. Treasury debt was $2.3 billion, on which it paid $105 million in interest.

Because the U.S. Government is liable for the risk associated with OPIC's financial products, it limits OPIC's total liability. By law, OPIC is authorized up to $29 billion in maximum contingent liability (MCL)—the amount OPIC would incur if maximum claims were made on all insurance contracts and borrowers defaulted on all loans. OPIC had contingent liabilities of about $19.2 billion as of June 2014.[2]

By statute (22 U.S.C. 2199), OPIC has no internal inspector general, but the USAID Office of Inspector General (OIG) "may conduct reviews, investigations, and inspections of all phases of [OPIC's] operations and activities." In response to congressional inquiries, OIG and OPIC agreed that OIG would conduct this risk assessment and a performance audit.

The purpose of the risk assessment was twofold: (1) to understand and summarize OPIC operations to facilitate potential future oversight activities and (2) to understand OPIC's major controls (the policies, procedures, and activities it has to prevent waste, fraud, and abuse; ensure regulatory compliance; and achieve social and economic development outcomes in target countries) and identify potential vulnerabilities.

## Operations

OPIC is a lending institution and an insurer. Its three authorities, sometimes called products, are insurance, loans, and investment guaranties.

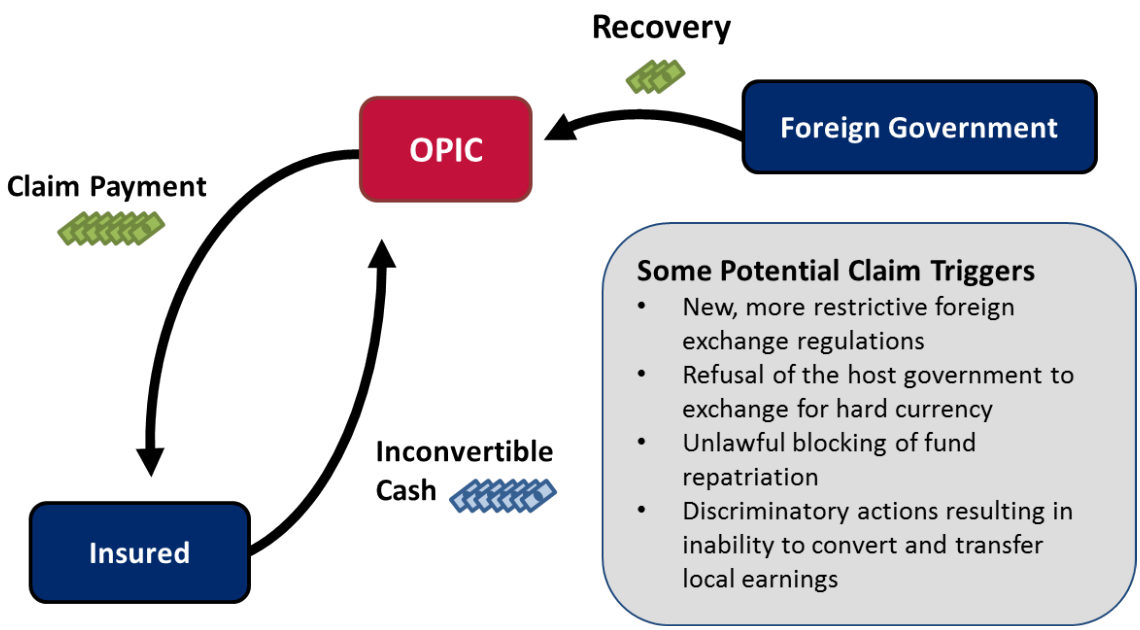
**Insurance.** OPIC offers political risk insurance to eligible U.S. investors. The categories of insurance are political violence, inconvertibility, and expropriation.

[1] The Federal Credit Reform Act of 1990 established the U.S. Treasury as a source for OPIC and other lending entities.
[2] For this risk assessment, all current commitments were included in contingent liabilities.

- Political violence insurance protects U.S. investors from losses caused by violence for political purposes.

- Inconvertibility insurance protects investors from the inability to convert funds from local currency to U.S. dollars. In the event of a claim, OPIC gives the claimant U.S. dollars in exchange for the local currency that could not be converted. OPIC then seeks recovery from the host government (Figure 1).

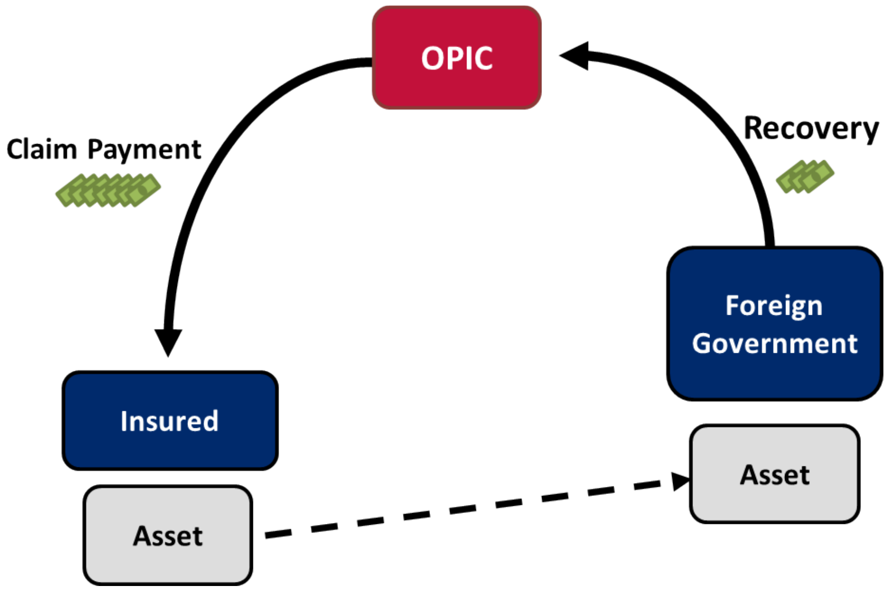
**Figure 1. Inconvertibility Insurance Claim**




Source: Created by OIG based on interviews and document review.

- Expropriation refers to a host government seizing assets from a private entity or otherwise interfering unlawfully. OPIC will work with the host government and the local U.S. Embassy on behalf of the insured party to avoid a claim. If unsuccessful, OPIC pays the claim according to the insurance contract and then works with the host government for recovery, typically monetary, as shown in Figure 2.

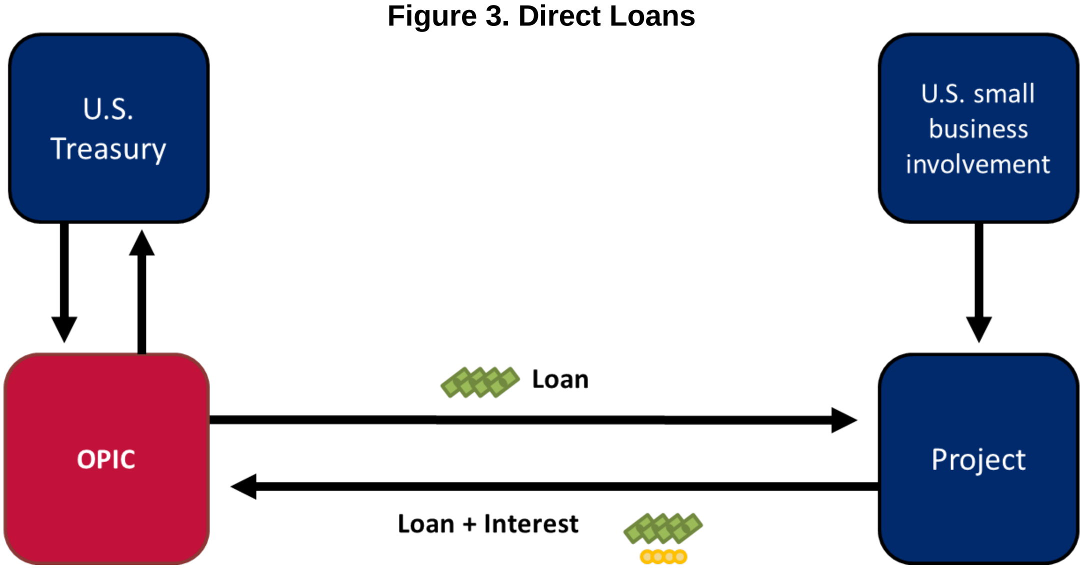
**Figure 2. Expropriation Insurance Claim**




Source: Created by OIG based on interviews and document review.

**Loans.** According to its Web site, OPIC's "involvement mobilizes U.S. capital by providing a loan when private banks would not, or by providing loans in countries where conventional financial institutions are reluctant or unable to lend." When a U.S. small business is significantly involved in a project, OPIC may lend directly to the project, up to 75 percent of the total project investment. OPIC borrows from the U.S. Treasury (Figure 3) to make the loan. OPIC pays interest on Treasury loans and repays the principal to Treasury.

**Figure 3. Direct Loans**

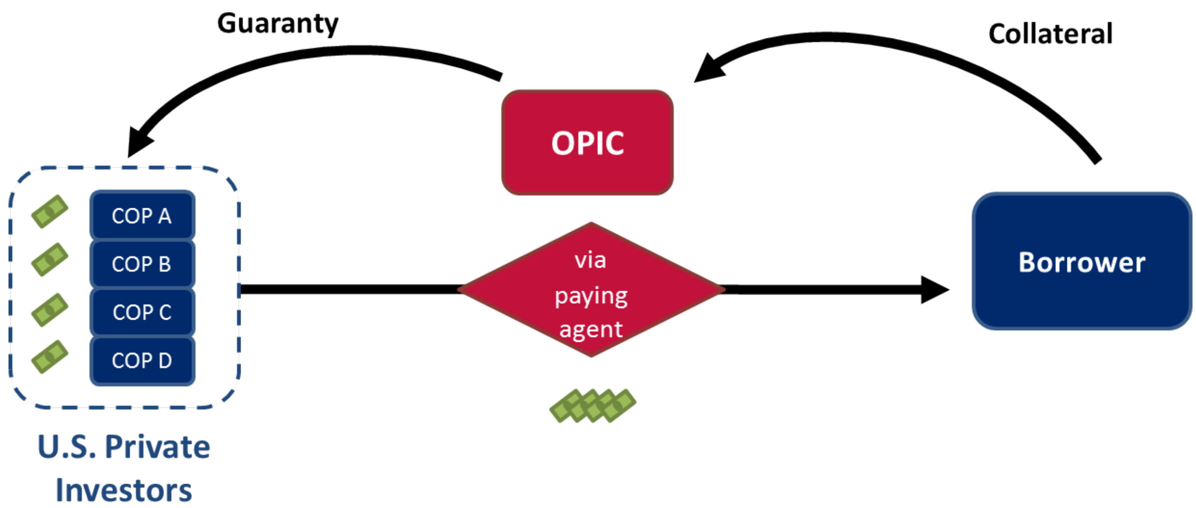



Source: Created by OIG based on interviews and document review.

**Investment Guaranties.** Eligible U.S. investors buy COPs—shares of the project's debt—with a repayment guaranty from OPIC. OPIC guaranties full repayment to the COP investors in case of default and can enforce remedies (including foreclosing on collateral) against the project. While

OPIC is the lender of record, a paying agent handles money transfers between investors and the project on OPIC's behalf. OPIC receives guaranty fees from the project (Figure 4). OPIC can also give guaranties to investors lending to a project. Although capital comes from the private sector and not the U.S. Treasury, because of the guaranty, the liability to the U.S. Government is the same for investment guaranties as for direct loans.

**Figure 4. Investment Guaranties**




Source: Created by OIG based on interviews and document review.

OPIC also uses investment guaranties to support funds that invest in "new, expanding, or privatizing emerging market companies." Instead of lending to a specific project, OPIC lends to a fund that invests in a variety of companies. OPIC participates in fund profits through what it calls "deferred interest."

## Major Controls and Vulnerabilities

For this risk assessment OIG evaluated OPIC's risk of not achieving social and economic development in target countries[3] and of not complying with selected statutory and policy directives. For the requirements considered, we identified controls OPIC has to ensure compliance and noted some vulnerabilities in Table 1. We rated medium the risk of noncompliance with five legal or policy directives. Following the table we discuss vulnerabilities in these risk areas.

[3] OPIC is required to give preferential treatment to projects in countries with per capita income less than $984 in 1986 U.S. dollars and to limit projects in countries with per capita income more than $4,269 in 1986 U.S. dollars. Antigua/Barbuda, Aruba, the Bahamas, Barbados, Ireland, the Netherlands Antilles, Northern Ireland, and Saint Kitts and Nevis are not subject to this restriction. This risk assessment uses inflation-adjusted 2013 per capita gross national income amounts of $1,803 and $7,822.

**Table 1. Risk Assessment**

| Legal or Policy Directive | Degree of Risk of Noncompliance or Failure | Major Control(s) | Vulnerability |
|---|---|---|---|
| Achieve social and economic development in target countries | *Medium* | OPIC's Office of Investment Policy assigns development scores to each proposed project. Division leaders reported setting goals to implement more projects in low-income countries. | OPIC's contribution to development might be reduced by overemphasizing financial considerations. Development scores rely on self-reported estimates and might be inaccurate. |
| Prevent waste, fraud, abuse | *Medium* | OPIC has an internal accountability office and an appointed ethics official. In its comments on the draft report, OPIC noted other controls such as third-party financial audits, annual ethics training, and financial disclosure requirements applicable to more than half of OPIC employees. | OPIC's U.S. sponsorship policy, deal-sourcing practices, and deal complexity create a medium risk that OPIC might use its authority to favor private partners without open competition. |
| Promote labor and human rights | *Medium* | The Office of Investment Policy must provide clearance for each project after reviewing its likely effect on labor and human rights, and conducts both random and risk-based site visits to projects. | There is a medium risk that OPIC might not know about or be able to control noncompliance among subprojects and sub-borrowers. OPIC relies on self-reported data and does not visit most projects for several years. |
| Avoid unreasonable environmental risk | *Medium* | The Office of Investment Policy must provide clearance for each project after reviewing its likely effect on the environment, and conducts both random and risk-based site visits to projects. | There is a medium risk that OPIC might not know about or be able to control noncompliance among subprojects and sub-borrowers. OPIC relies on self-reported data and does not visit most projects for several years. |
| Mitigate credit risk | *Medium* | OPIC conducts credit underwriting, and all projects must be approved by its internal Credit Committee. Larger projects require additional review and approval. | OPIC operates in high-risk environments. |

| Legal or Policy Directive | Degree of Risk of Noncompliance or Failure | Major Control(s) | Vulnerability |
|---|---|---|---|
| Avoid adverse effects on U.S. economy | *Low* | OPIC economists evaluate impact before granting projects clearance. Projects that will export to the United States are subject to policy limitations and additional requirements. | OPIC has limited influence over some subprojects. |
| Involve U.S. small businesses | *Low* | OPIC has a division dedicated to projects involving small and medium-sized enterprises. | None noted. Because project documents specify sponsors, verifying that some sponsors are, in fact, small and based in the United States is easily done through public records. |
| Conduct business on a self-sustaining basis | *Low* | OPIC has loss-recovery opportunities unavailable to private entities (e.g., bilateral agreements with host governments). | None noted. Net positive holdings with the U.S. Treasury suggest OPIC has been self-sustaining.* |
| Mobilize U.S. private capital | *Low* | OPIC sells COPs and political risk insurance to eligible U.S. investors. | None noted. Raising capital through the sale of COPs mobilizes private capital. |

***** We did not audit OPIC's financial statements as part of this risk assessment.

**OPIC Might Prioritize Financial Outcomes Over Development Impact.** In deciding whether to insure or finance a project, OPIC officials are instructed to "be guided by the economic and social development impact." As noted above, OPIC is required to give preferential treatment to projects in countries with per capita gross national income (GNI) less than $1,803 and restrict projects in countries with per capita GNI more than $7,822. In addition, the statute states that in achieving its purpose—development—OPIC should undertake to be self-sustaining.

OPIC might prioritize self-sufficiency and the mobilization of capital over development impact. As a result, potentially negative unintended consequences (say, to the environment) might be overlooked, or OPIC might achieve less development impact than it otherwise could.

- **Corporate culture.** OPIC officials said that the agency's primary development objective is to support financially sustainable (profitable) private sector investments. In one case examined for the risk assessment, a project's annual loan review identified six project risks, all pertaining to the project's ability to make payments; the review did not consider any risks related to not advancing development.

Senior OPIC officials emphasized several times in various settings that OPIC is a bank focused on credit risk and self-sufficiency. Officials also said that as long as OPIC gets repaid, social or economic development impact is assumed to have taken place. Meeting with senior OPIC officials, we heard statements like these:

- "Whether or not we are going to get repaid is the number one consideration."
- "Development impact is not the end game."

OPIC officials later explained that these statements reflect their view that self-sufficiency is not statutorily subordinate to development. OPIC interprets self-sufficiency as a mission equal to its development purpose. The statute states, "In carrying out its purpose, the Corporation [OPIC], utilizing broad criteria, shall undertake to conduct . . . operations on a self-sustaining basis." Similarly, an official said, "One of OPIC's statutory missions is to mobilize and facilitate the participation of U.S. capital." OPIC interprets the mobilization of capital as a mission rather than a means of achieving development.

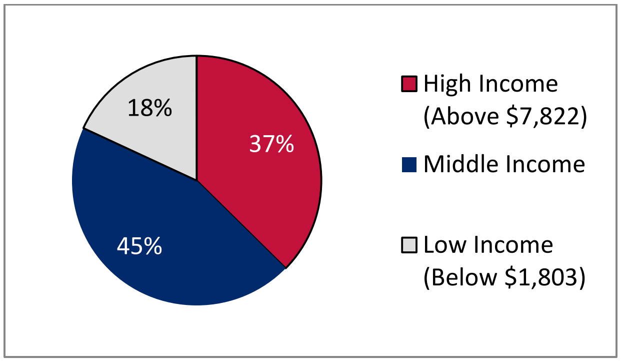
- **Development scores.** To rank prospective projects, OPIC's internal Office of Investment Policy assigns development scores based on applicants' estimates of development impact. Projects assigned a development score below 25 (out of 100) are categorized as indeterminate, while those between 25 and 59 as developmental, and those 60 or higher as highly developmental. Indeterminate projects can still proceed with the approval of the OPIC Chief Executive Officer. About 45 percent of scored projects were over the current 60-point "highly developmental" cutoff. However, the data set did not include the date on which each project was scored. An earlier scoring methodology established 100 (out of 160) as the "highly developmental" threshold. Thus, the scores do not enable comparisons of development impact among projects over time.

  Furthermore, OPIC might overestimate development scores. In one case examined for the risk assessment, part of the assigned development score (65 out of 160) was based on the applicant's assertion that it would hire 70 employees. The Office of Investment Policy also required the recipient, a bank, to inform OPIC if any of the bank's borrowers used the funds they got to start or increase exports. Bank officials told OIG that after receiving funding, the bank did not hire any employees and did not know whether borrowers were starting or increasing exports.

  The statements provided to OIG do not directly address the development success or failure of the project. Nevertheless, they suggest a risk that OPIC development scores provided by the Office of Investment Policy could overestimate development impact and that its clearance requirements might not be enforced.

- **Restricted countries.** The distribution of MCL suggests a departure from the requirement to give preferential treatment to some countries and restrict lending to others. As shown in Figure 5, 18 percent of OPIC's MCL was in the highest-priority countries while 37 percent was in restricted countries.

**Figure 5. Maximum Contingent Liability by Income Category of Recipient Country, June 2014 (All Product Lines)**




Source: Generated from data provided by OPIC as of June 30, 2014.

Similarly, of the five countries with the highest OPIC liabilities in 2014, three had per capita gross national incomes (GNI) greater than $7,822 (Table 2).

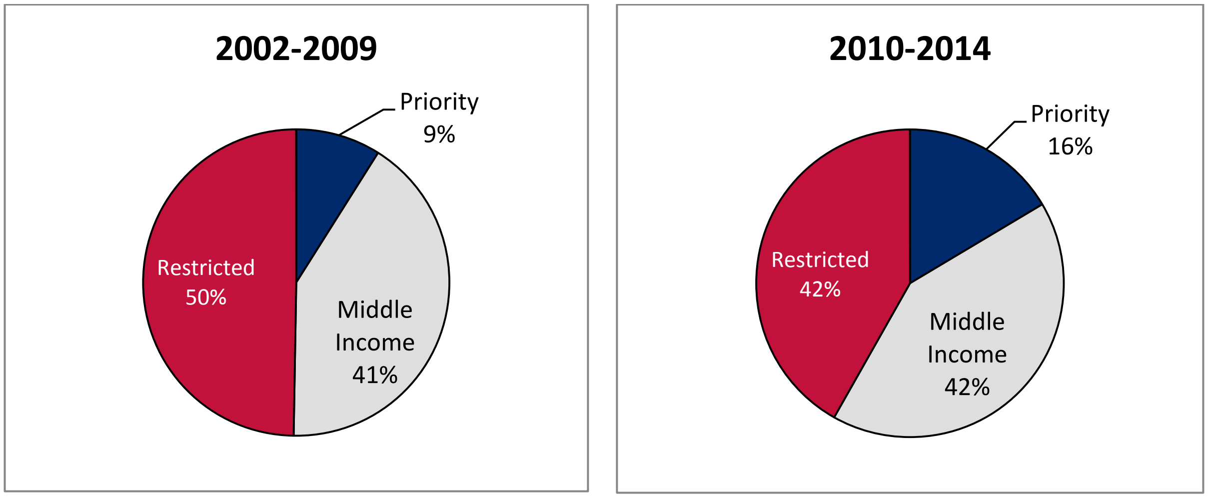
**Table 2. OPIC Liabilities by Country as of June 2014**

| Country | Contribution to OPIC MCL ($) | GNI (2013 dollars)* |
|---|---|---|
| Turkey | 1,278,100,000 | 10,970 |
| Jordan | 1,184,877,083 | 4,950 |
| Chile | 901,400,000 | 15,230 |
| Ghana | 870,228,631 | 1,770 |
| Mexico | 724,361,800 | 9,940 |

* World Bank (http://data.worldbank.org/indicator/NY.GNP.PCAP.CD).

However, timing could have influenced the above data. For example, OPIC liabilities might have been incurred many years ago, and GNI figures fluctuate such that the income categories for some countries might have changed since certain projects were initiated. OPIC officials explained that new projects are increasingly in middle- and low-income countries. For example, as Figure 6 shows, the share of MCL in priority countries increased from 9 percent to 16 percent.

**Figure 6. Finance Project* MCL by Income Category, Fiscal Years 2002 to 2009 and Fiscal Years 2010 to 2014**




Source: Generated from data provided by OPIC as of June 30, 2014.
* Finance projects include direct loans and most investment guaranties.

Regarding the above data, OPIC officials suggested that lower-risk projects in higher-income countries enable higher-risk projects in lower-income countries. Still, high MCL in restricted countries suggests that development impact in target areas could be subordinated to self-sufficiency and profitability.

**OPIC's Policy for Involving U.S. Sponsors Is Potentially Vulnerable to Abuse.** On its Web site,[4] the U.S. Office of Government Ethics interprets 18 U.S.C. 208 and 5 CFR Part 2635 on employees' use of government positions and resources is as follows:

> An executive branch employee's position, title, or authority may offer the opportunity to further the employee's own private interests or the interests of friends, relatives, or persons with whom the employee is affiliated in a nongovernmental capacity. An employee may have access to nonpublic Government information that could benefit those interests, and will have access to Government property. The public may lose confidence in the integrity of Government if it perceives that an employee is using public office to serve a private interest, and it expects that Government information, property, and time (including the time of a subordinate) will be used to serve the public's interests.
>
> Accordingly:
> - An employee is required to act impartially.
> - An employee may not make improper use of Government position, title, or authority.
> - An employee may not use Government property, nonpublic information, or time (including the time of a subordinate) for other than authorized purposes.

[4] http://www.oge.gov/Topics/Use-of-Government-Position-and-Resources/Use-of-Government-Position---Resources/.

OPIC's U.S. sponsorship policy, deal-sourcing methodology, and deal complexity (explained below) create a risk of noncompliance with U.S. Government ethics standards. Although it is the combination and interaction of these factors that pose a risk, we discuss them separately for simplicity.

- **U.S. sponsorship.** OPIC policy requires "a meaningful connection or connections between an OPIC-supported project and the U.S. private sector." OPIC requires a sponsor to provide that connection. This policy is not necessary to mobilize capital and is not a statutory requirement. Moreover, it lends itself to potential abuse in some circumstances:

  - In some cases, OPIC might be interested in a project for which no sponsor is immediately present or obvious. OPIC would then seek one out through noncompetitive means. OPIC could direct sponsorship opportunities to or even create unpublicized investment opportunities for parties with which it has favored relationships.

  - OPIC can arrange for a U.S. sponsor to receive rather than provide capital. For example, as a condition of receiving a loan, OPIC might require the borrower to pay fees to a U.S. sponsor. Doing so could be inefficient and could allow OPIC to direct client fees to favored partners.

- **Deal sourcing.** OPIC does not proactively seek highly developmental projects in low-income countries. Instead, OPIC reviews projects proposed by its clients, which may not make development a priority. Furthermore, OPIC operates in industries and areas in which employees move among a small constellation of related businesses. This turnstile relationship increases the risk of overlooking better development alternatives and guiding opportunities to favored partners through noncompetitive means.

- **Deal complexity.** OPIC deals can involve many parties and multiple layers of intermediaries and operating companies. For example, OPIC provided $250 million to finance a water pipeline in Jordan. GE Capital was the U.S. sponsor, as a 50 percent owner (along with Gama Holdings) of Gama Enerji, a Turkish energy company. The Disi Water Company was formed as a "special purpose vehicle" to receive the OPIC loan and oversee construction. Suez Environnement, a French company, is the operating company. Within the scope of this risk assessment, we do not express any opinion regarding the value or validity of deal structures. We note, however, that such arrangements create legal relationships that are not apparent to average observers and that providing thorough oversight requires increased time and resources.

  OPIC officials asserted that this risk was equal to that of any government agency interacting with the business community.

**OPIC Has Limited Influence Over Subprojects.** By law, OPIC must avoid projects that may have an adverse effect on U.S. employment or trade. OPIC's statute and policy impose additional rules regarding environmental sustainability and respect for human rights. Accordingly, OPIC categorizes projects according to environmental and social risks from A to C, where A is high risk and C low risk. As a matter of policy, financial services projects are generally in Category C.

OPIC has controls to manage most noncompliance risk among immediate loan recipients while a loan is outstanding (though OPIC often relies on self-reported information from its clients). However, we assigned a medium risk to deviation from the environmental and human rights standards by secondary projects or beneficiaries. Secondary projects and beneficiaries are those at least one step removed from OPIC—for example, borrowers who get loans from a bank that obtained funds from OPIC.

While banks can be assigned any risk rating, including a separate Category D to indicate that OPIC will screen all subprojects, OPIC generally considers banks low risk for employment and trade disruption and rights and environmental abuse, and conducts less rigorous oversight of them. Until or unless OPIC does a site visit, OPIC collects evidence of compliance through annual self-monitoring questionnaires provided by banks and other immediate loan recipients. However, as became clear from a review of one bank's questionnaire, the bank did not provide information regarding potential compliance issues among project sub-borrowers. Thus, the questionnaire does not reflect true project risk and is a weak control. Moreover, the bank indicated that its data gathering and reporting were insufficient to comply with one of the Office of Investment Policy's conditions precedent—that it keep OPIC officials informed if any of its borrowers used funds to start or increase exports.

Even if OPIC sought to increase site visits, it would encounter monitoring difficulties. Banks lend OPIC-provided funds to a variety of potentially high-risk businesses in diverse locations. For example, one subproject in Turkey facilitates construction contracts in Iraq and Syria. Furthermore, the number of subprojects, though desirable in terms of development impact, limits the scope of monitoring activities.

As a result of a weak control and monitoring difficulties, OPIC might not be fulfilling its mandate vis-à-vis the environment, labor rights, human rights, or U.S. trade.

**Insurance Might Compete With the Private Sector.** OPIC should not compete with private insurance and lending markets. Accordingly, OPIC policy states that all projects should be "additional"—i.e., their insurance or financing products should complement rather than compete with the private sector.

OPIC insurance could compete with insurance provided by the private sector. OPIC's control for establishing additionality requires only an unverified statement from the applicant. Political risk insurance applications ask whether the applicant sought private sector coverage and whether it was available. If yes, the applicant can indicate, without evidence, that the offered coverage was insufficient. OPIC officials said there are repercussions if an applicant misrepresents that it sought private insurance. However, an applicant could honestly indicate that he or she obtained private quotes and yet still get insurance from OPIC.

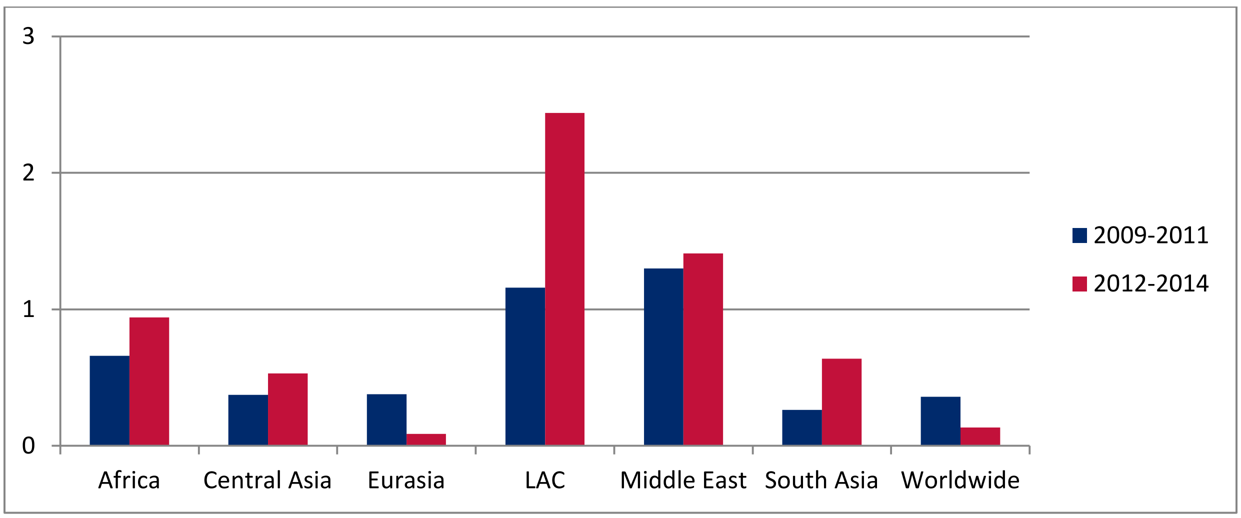
A case in point was an applicant attesting to OPIC that it had discussed private coverage with two providers, AIG and Chubb. Both offered coverage that the applicant said made the project "uneconomic." The applicant provided no additional support. (An applicant might well conclude that it is never economical to use private insurance when OPIC insurance is available for less.) One of the applicant's project partners told the assessment team that the applicant had not intended to purchase private coverage. Although OPIC suggested this partner was not necessarily privy to the applicant's actions regarding insurance coverage, the partner's statement nevertheless contributed to our decision to elevate to medium the risk of competing with the private sector.

> ***Suggestion 1.*** *We suggest that OPIC amend its political risk insurance application to require proof that the applicant sought and analyzed private options before purchasing from OPIC.*

**Changing Composition of Liabilities Presents New Risk Areas.** In addition to assessing risks that OPIC might not achieve its development mission or comply with other statutory guidelines, we analyzed risk associated with the regional concentration of MCL.

**Regions.** Figure 7 shows recent trends in the amount of MCL devoted to finance projects by region. Projects in Africa received $660 million in the first 3-year period shown; in the second period, they received $940 million, a 42 percent increase. Finance project MCL in Latin America and the Caribbean (LAC) more than doubled, from $1.2 billion to $2.4 billion. Much of the increase was due to projects in Brazil and Chile.

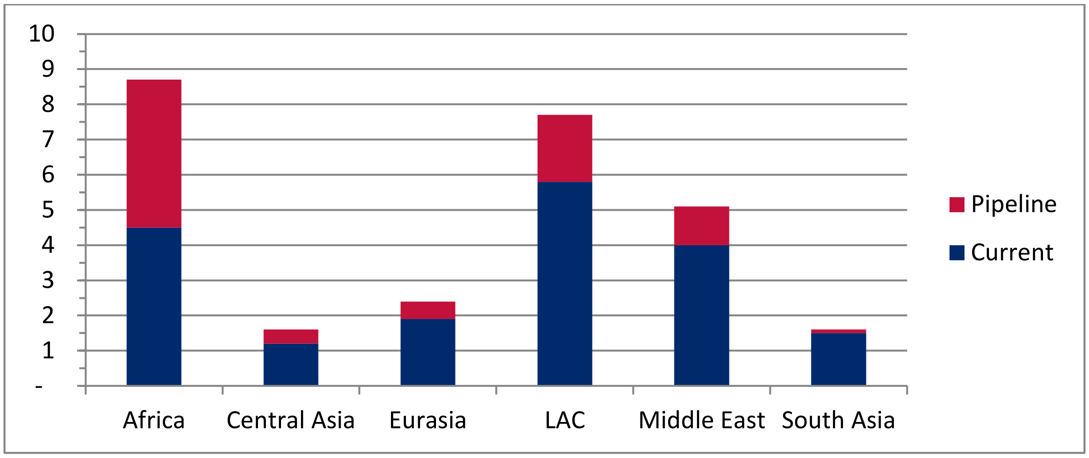
**Figure 7. MCL Devoted to Finance Projects, by Region, Fiscal Years 2009 to 2011 and Fiscal Years 2012 to 2014 ($ billion)**




Source: Generated from data provided by OPIC as of June 30, 2014, with regional grouping assigned by OIG.

Meanwhile, trends in overall MCL devoted to projects in the pipeline indicate a transition from Latin America and the Middle East to Africa (Figure 8). We also note that, on average, MCL per project is higher in the Middle East and Central Asia, where monitoring environments might be more challenging.

**Figure 8. MCL in Current and Pipeline Projects, by Region ($ billion)**




Source: Generated from data provided by OPIC as of June 30, 2014, with regional grouping assigned by OIG.

# EVALUATION OF MANAGEMENT COMMENTS

In comments on the draft, OPIC generally agreed with the risks identified in the risk assessment and indicated it would consider the suggestion regarding insurance applications in the course of on-going coordination with its private market advisory group.

OPIC did "not concur with the Report's implication that the mandates to support development and operate in a financially self-sustaining manner are at odds." OIG does not contend that financial sustainability and development impact are at odds. Rather, we contend that financial success does not necessarily translate into development impact and that too much emphasis on financial success could both increase the risk of negative unintended consequences and detract from OPIC's maximum development potential.

In addition, OPIC responded that the report, in citing the high relative volume and value of projects in countries restricted by statute, failed to take into account the developmental impact that OPIC can have in these countries. OIG notes, however, that the statute makes no need-based exception to the restriction on projects in countries with per capita income above $4,269 in 1986 dollars.

OPIC disagreed that it "does not proactively seek highly developmental projects in low-income countries" and cited efforts with various stakeholders as well as with its Social Enterprise Finance Team and Portfolio Impact Program. In arriving at our conclusion, we weighed these efforts against the comments senior OPIC officials made in various meetings, that OPIC does not dedicate significant resources to business development, but typically waits for deals to come to it.

OPIC disagreed with the report's statement that OPIC generally considers banks low risk and therefore conducts less rigorous oversight of them. However, OPIC's Environmental and Social Policy Statement reads, "Category C projects are likely to have minimal adverse environmental or social impacts. Examples of Category C projects include financial services."

Regarding additional controls to prevent waste, fraud, and abuse presented in management comments, we acknowledge that Table 1 was not intended to be exhaustive in any category. We added some controls to the final report to address OPIC comments.

Our response to each of OPIC's factual corrections/clarifications are found in the following table.

| OPIC proposed correction/clarification | OIG response |
|---|---|
| OPIC is statutorily required to conduct its operations on a self-sustaining basis. | OIG stated on page 1 that OPIC is "encouraged" to be self-sustaining to avoid making a de facto interpretation of an unclear portion of the statute. The relevant statutory citation reads: "In carrying out its purpose [development], the Corporation [OPIC], utilizing broad criteria, shall undertake to conduct . . . operations on a self-sustaining basis." |

| OPIC proposed correction/clarification | OIG response |
|---|---|
| The report's reference to MCL of $19.2 billion on page 1 would be more accurately characterized as "commitments." | The final report includes a footnote indicating that contingent liabilities include commitments. |
| Regarding the report's statement on page 5 (Table 1) that development impact might be reduced by too much emphasis on financial returns, OPIC emphasizes financial sustainability, not financial returns. | OIG does not dispute that sustainability is an important aspect of development. In general, efforts to be financially sustainable are praiseworthy. However, there is a risk that too much focus on sustainability could hurt pursuit of another statutory objective, development. |
| OPIC does use self-reported data on applications, but analysts in its Office of Investment Policy closely examine and question the data. | Reliance on self-reported data presents a potential control weakness. The scope of this risk assessment did not include testing the efficacy of the related control activity, examination by the Office of Investment Policy. |
| OPIC conducts risk-based site visits in addition to randomized site visits. | OIG accepted this technical correction and revised text accordingly. We note that the table on pages 5 and 6 was not intended to be exhaustive in any category. |
| Regarding a draft report statement about the changing geographic concentration making credit risk indeterminate, OPIC examines country risk ratings from U.S. Government and private sector sources and quantifies risk in obligation documents. | We removed the word "indeterminate" from the final report. Nevertheless, as the geographic composition of its commitments changes, especially in conflict areas, OPIC is exposed to new risks. |
| Regarding OIG's assertion on page 6 that too much emphasis on financial considerations increases the risk that OPIC might overlook negative unintended consequences or achieve less impact, OPIC's internal control is designed to prevent commitments to projects that have not received policy clearance. | OIG acknowledged OPIC's policy clearance controls in the table on pages 5 and 6. We nevertheless identified a medium risk that OPIC might place too much emphasis on financial considerations relative to development. Therefore, despite controls, OPIC might overlook some potential negative project consequences. |
| Annual loan reviews discussed on page 6 ("Corporate culture") are not intended to consider developmental risks. The Office of Investment Policy independently examines development impact. | Concern for development impact appears to be isolated in the Office of Investment Policy as opposed to being part of all divisions' considerations. We believe this supports our concern that OPIC's corporate culture is not centered on development. |
| Despite updated methodology, development impact scores can be used to compare projects over time. Methodology changes were informed by changes across the development finance industry. | The report's statement (page 7) was in the context of evaluating the scoring data OPIC provided to OIG. Data included scores that were adjusted to reflect OPIC's current 100-point scale. That is, scores for projects originally scored using the 160-point scale were reduced by a factor of 0.625. However, it was not only the scale, but specific scoring criteria, that changed. Therefore, we did not want to make direct comparisons of projects over time or present graphics showing that OPIC was increasing or decreasing the number of such projects. |

| OPIC proposed correction/clarification | OIG response |
|---|---|
| It is too early to assess whether development scores for some projects were overestimated. OPIC assesses development impact after 5 years. | As stated in the report (page 7), the development score reviewed for the risk assessment was based, in part, on an estimate of hiring 70 employees. We considered the gap between the estimated 70 employees and the actual zero reported by the bank to be significant enough to indicate that the estimate was unrealistic. |
| Regarding management quotes from page 7, "The remarks cited were made in the context of a meeting in which OPIC sought to explain OPIC's development finance institution model, as distinct from a grant-making aid organization." | The remarks cited were made during a meeting with OPIC's legal staff covering a wide range of topics and followed a question about what those present considered OPIC's biggest vulnerability and the risk of unintended consequences. |
| Figure 6 of the draft report might have been mislabeled. | We corrected the error in the final report. |
| Regarding the discussion of the U.S. sponsor policy (pages 9 and 10), it stems from a statutory requirement to broaden private participation. | The full text of the relevant statutory citation reads: OPIC "shall undertake to… broaden private participation and revolve its funds through selling its direct investments to private investors whenever it can appropriately do so on satisfactory terms." In this context, broadening private participation and revolving funds appear to be what OPIC already achieves through selling direct investments to secondary markets, which OPIC does with COPs. |
| Regarding the statement in the draft report that "OPIC's efforts to mobilize private U.S. involvement may pose higher than normal risk of illegal or unethical practices," OPIC employees are subject to the same statutes and regulations as those of any other federal entity. | The report states that, combined with OPIC's deal-sourcing practices and deal complexity, OPIC's U.S. sponsor policy increases the risk of directing fees and unpublicized opportunities to favored partners (page 10). Unlike other federal entities in most cases, OPIC uses noncompetitive means to select U.S. sponsors. |
| The summary of OPIC's Environmental and Social Policy Statement on page 10 was incomplete. | OIG selected portions of policies and regulations applicable to topics presented in the report. |
| The statement on page 10 that "as a matter of policy, financial services projects are generally in Category C" is inaccurate. | OPIC's Environmental and Social Policy Statement reads, "Category C projects are likely to have minimal adverse environmental or social impacts. Examples of Category C projects include but are not limited to financial services…" |
| Further, OPIC places restrictions on the use of OPIC proceeds. | In the case discussed in the report (on page 7), the bank did not have sufficient information to allow OPIC to determine whether the bank had violated restrictions on the use of OPIC proceeds. |

# SCOPE AND METHODOLOGY

## Scope

We conducted this risk assessment in accordance with Chapter 3 of *Government Auditing Standards* relating to professional independence and judgment, competence, and quality control. Sections 6.79 to 6.82 in Chapter 6, which relate to documentation standards, were also followed. The risk assessment addressed controls and risks associated with achieving desired outcomes (mobilization of U.S. private capital to achieve social or development impact) and regulatory compliance. Thus, the risk assessment was not limited by temporal or geographic boundaries other than in some specific instances as described in the methodology. Instead, the risk assessment evaluated the control environment, policies, and procedures with particular emphasis on achieving development outcomes.

The risk assessment did not consider operational elements such as human resource practices, travel policy, and accounting. We considered risks associated with direct loans, investment guaranties, and investment funds, but not with facility agreements, which are less common. We selected a broad scope to gain an understanding of the organization and assess risk generally before selecting topics for more detailed follow-up.

## Methodology

The objective of the risk assessment was twofold: (1) to understand and summarize OPIC operations to facilitate potential future oversight activities and (2) to understand OPIC's major controls (the policies, procedures, and activities it has to prevent waste, fraud, and abuse; ensure regulatory compliance; and achieve social and economic development outcomes in target countries) and identify potential vulnerabilities.

To understand OPIC operations, we interviewed OPIC leadership and reviewed policies and procedures provided by OPIC.

We then identified the following ten major regulatory requirements from OPIC's organic statute:

1. Prevent waste, fraud, and abuse (including corruption, cronyism, unfair market practices, market manipulation, and unreasonable risk).

2. Ensure involvement of U.S. private capital.

3. Ensure involvement of U.S. small businesses.

4. Mitigate risk (portfolio, credit, etc.).

5. Ensure sufficient income to continue OPIC operations.

6. Ensure social or economic development outcome in target countries.

7. Comply with labor rights requirements.

8. Comply with environmental requirements.

9. Avoid adverse effects on U.S. trade or employment.

10. Discourage monopolistic practices.

We then identified major controls associated with these requirements by interviewing OPIC leadership, reviewing policies and procedures, and inspecting documents from judgmentally selected projects.

We considered controls by product line (insurance, direct loans and investment guaranties, and investment funds) and by process (sourcing, application, due diligence, etc.). The resulting low, medium, or high risk rankings were based on auditor judgment and the following general guidelines:

1. Maximum contingent liability is the basic OPIC risk definition. Higher MCL is higher risk.
2. Lower leverage (meaning OPIC has a higher share of total project risk) is higher risk.
3. Country and sector concentration (especially in conflict countries) is higher risk.
4. Absent or weak controls mean higher risk.
5. Dollar value-related risk will be considered on a relative rather than absolute basis.

We considered MCL the most basic measure of OPIC's risk. Accordingly, in addition to identifying risks that OPIC might not be achieving its development mission or complying with other statutory guidelines, we reviewed MCL data to inform future oversight. We considered MCL data provided by OPIC as of June 30, 2014.

We conducted limited testing of control documents and made site visits to five projects, of which four were in Jordan and one was in Turkey. We selected these countries because they are important to current U.S. foreign policy and because they have the highest concentration of MCL.

# MANAGEMENT COMMENTS

March 20, 2015

United States Agency for International Development
Office of Inspector General
Mr. James Charlifue
Regional Inspector General/Frankfurt
Re: OPIC Management Response to Draft USAID Office of the Inspector General Report No. X-OPC-15-00X-S, dated February 18, 2015, entitled "Assessment of the Overseas Private Investment Corporation's Development Outcome and Compliance Risks"
Dear Mr. Charlifue:

OPIC appreciates the work of the USAID Office of the Inspector General ("OIG") on this risk assessment (the "Report"). OPIC agrees in large part with the risks that the OIG has identified and the suggestion that the OIG has offered.

In addition to the attached specific comments on the Report, OPIC would like to highlight an important point raised by this Report: financial sustainability and development impact are mutually reinforcing. OPIC was created as the U.S. Government's development finance institution ("DFI"). A fundamental premise of the DFI model is that the demonstration of financial viability of business despite difficult risk environments is, in itself, developmental. In order to mobilize U.S. private capital to participate in investments in developing and emerging markets, the business model of any project that OPIC supports must also be financially viable. Without such financial viability, no private capital would be willing to participate in the activity that creates economic and social development.

This approach is reflected in OPIC's statute, which states that OPIC was created, "[t]o mobilize and facilitate the participation of U.S. private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies" (Sec. 231 of the Foreign Assistance Act of 1961 (P.L. 87-95 or "FAA")) and to do so "…on a self-sustaining basis, taking into account in its financing operations the economic and financial soundness of projects." (FAA Sec. 231(a))

Many world leaders, including World Bank President Jim Yong Kim, agree that robust private sector growth and private sector investment are the "critical investments needed to create enough jobs for the poor or to meet developing countries' growing infrastructure needs." This need is further evidenced by the explosive growth of DFI commitments over the last fifteen years. Total annual commitments from DFIs to the private sector quadrupled between 2002 (approximately $10 billion) and 2012 (approximately $44 billion).

OPIC therefore does not concur with the Report's implication that the mandates to support development and operate in a financially self-sustaining manner are at odds. Rather, these two mandates are complementary. In fact, when a private sector investment is not financially sustainable, it also will not likely achieve its development impact. Put simply, if investing firms are not profitable, then local jobs are not created, income levels are not increased, and standards of living are not improved.

The Report implies that OPIC's financial sustainability drives OPIC to operate in "restricted" countries with a per capita income above $4,269 in 1986 dollars. This conclusion fails to take into account the developmental impact that OPIC can have in these countries as well. For example, over 75% of the OPIC-supported projects initiated in these higher income countries in 2010-2014 either (a) target an underserved segment of the population in the host country (approximately 65% of those targeted microenterprises, small and medium-sized enterprises, and rural-focused agriculture projects) or (b) involve a priority region/sector (for example, nearly 15% of those were in the Middle East and North Africa region, and almost 10% involved renewable energy). Finally, almost 25% of those projects were "global" or "regional" projects, with operations spread across low, middle, and high income countries. That includes, for example, OPIC support for highly developmental microfinance projects that operate across multiple countries.

Moreover, country-level indicators of poverty are crude at best. As has been shown by repeated studies conducted by independent authorities such as the Organization for Economic Cooperation and Development ("OECD") and the World Bank Group, some 70% of the world's poor who survive on a $1.25 per day or less actually live in middle-income countries. [5] OPIC's investment in poorer areas of middle-income countries is entirely consistent with its mandate.

The Report properly acknowledges that countries move within these income categories over time, and OPIC loans and insurance can remain outstanding for ten years or more. Thus, OPIC may approve support for a project when the country is categorized as "low income". Then, the country's economy may grow over the term of the OPIC support, such that the country is no longer in the low income category. To illustrate this point, since 1998, (a) 28 OPIC countries have migrated from low income to middle income; (b) 24 OPIC countries have migrated from middle income to high income; and (c) two OPIC countries have migrated from low income to high income. More generally, the share of low income countries among the countries in which OPIC can operate has shrunk. In fiscal year ("FY") 2000, there were 75 countries in that low income category – almost half of the countries in which OPIC was allowed to work. At the beginning of FY2015, there were just 49 low income countries, or 30% of the total number of OPIC eligible countries.

The Report states that "OPIC does not proactively seek highly developmental projects in low income countries." OPIC strongly disagrees with this statement. OPIC specifically seeks highly developmental projects in low income countries and the Report itself acknowledges that OPIC's portfolio in lower income countries has grown in recent years. Finding highly developmental projects in low income countries that also are financially viable and meet all of OPIC's other policy and statutory requirements, is a significant challenge that OPIC confronts every day.

OPIC actively seeks projects in low income, high impact markets through proactive outreach to: U.S. Embassies; diaspora communities; existing OPIC clients; American Chambers of Commerce; and marketing trips to, for example, Haiti, South Sudan, Pakistan, India, Rwanda,

[5] Source: Development Co-Operation Report 2013: Ending Poverty, OECD.

Senegal, Liberia, and Ghana. In my own report to OPIC's Board each quarter, I personally stress the importance of our efforts to increase our work in low income countries.

OPIC has also created a Social Enterprise Finance team dedicated to sourcing and underwriting highly developmental projects in low income countries. In 2014, that team launched the Portfolio for Impact program, a more focused approach within OPIC to provide loans of $1 million - $5 million to small, emerging companies building sustainable businesses. Many of these companies are located in low income countries. OPIC is receiving support from the State Department and USAID to support a handful of people dedicated to sourcing high impact deals, and OPIC also works actively through the Department of Commerce Foreign Commercial Service Officers and State Department economic officers to further expand its outreach capability.

Regarding OPIC's risk management with respect to banks, the Report states that "…because OPIC generally considers banks low risk, it conducts less rigorous oversight of them." However, this conclusion does not accurately reflect OPIC's approach to policy risk management. OPIC conducts more rigorous oversight of projects that it considers higher policy risk and less rigorous oversight of projects that it considers to pose lower policy risk. OPIC considers this prudent risk and resource management. Not all bank projects are considered low risk, and OPIC applies increased scrutiny, conditions, and oversight commensurate with individual project risks.

The Report suggests that OPIC "…amend the insurance application to require proof that the applicant sought and analyzed private options before purchasing from OPIC." Input of the private sector is reflected in OPIC's existing Insurance Application, which contains two questions that require each investor to investigate the availability of private political risk insurance and, where private insurance is available, explain why the investor seeks OPIC political risk insurance. Over OPIC's life, which began primarily as a political risk insurance agency, OPIC has systematically pulled away from markets as the private political risk insurance market has grown. Clients who used to seek OPIC's insurance products in markets like Korea and Mexico now come to OPIC for support in places like Egypt and Ukraine.

Congress instructed OPIC to establish, pursuant to FAA Sec. 234A(b), a private market advisory group, which is comprised of up to 12 members from the U.S. private political risk insurance sector, including private insurers and reinsurers, brokers, and insured investors. The principal objectives are to advise OPIC on how to engage the private market more effectively in meeting the political risk requirements of U.S. investors, to ensure that OPIC is not competing with or displacing private sector insurers, and to discuss and any other issues of concern. Creation of this group reflects Congressional input into how OPIC should balance this risk, and whose input should be obtained in addressing this risk.

OPIC will continue to engage cooperatively with the U.S. private political risk insurance sector through its advisory group, including with respect to the OIG suggestion. In addition, as always, OPIC will continue to review its internal controls (including those associated with requiring applicants to seek and analyze private political risk insurance options) to determine if they need to be strengthened.

Finally, the Report suggests that OPIC's Office of Accountability is the sole "major control" against waste, fraud and abuse at the agency. The Report should acknowledge the full complement of policies, procedures, and institutional protections against waste, fraud, and abuse:

(1) OPIC's independent, third-party certified public accountants that conduct annual financial audits, which OPIC makes publicly available in OPIC's Annual Report;
(2) OPIC's rigorous internal controls and assessment system;
(3) the Audit Committee of OPIC's Board of Directors, which meets regularly, commissions reports, and questions OPIC officials;
(4) OPIC's ethics rules and guidelines that are implemented and monitored by the OPIC ethics official;
(5) annual training of all OPIC employees on these ethics rules and guidelines;
(6) annual financial disclosure filing requirements that apply to more than half of OPIC employees; and
(7) OPIC's confidential "hotline" to report waste, fraud and abuse.

OPIC again thanks the OIG for the opportunity to discuss these important issues.

Sincerely,
S/
Elizabeth L. Littlefield
President & Chief Executive Officer

*Attachment:* Specific factual corrections/clarifications to the Draft USAID Office of the Inspector General Report No. X-OPC-15-00X-S, dated February 18, 2015

Specific factual corrections/clarifications to the Draft USAID Office of the Inspector General Report No. X-OPC-15-00X-S, dated February 18, 2015

***Page 1: Regarding OPIC's requirement for self-sustainability***
***The Report states that OPIC is "…encouraged to be self-sustaining…".*** OPIC is more than "encouraged" to be self-sustaining. OPIC's statute states that it "shall undertake to conduct… operations on a self-sustaining basis, taking into account in its financing operations the economic and financial soundness of projects." ((Sec. 231(a) of the FA Act of 1961 (P.L. 87-95)) Because of this statutory mandate to be self-sustaining, it is vital that OPIC's focus include repayment. Not only would OPIC be in violation of its statute if it were not routinely repaid, the private sector would stop investing in OPIC-supported projects, as the private sector is focused on making a return on its investment.

***Page 1: Regarding OPIC's total exposure***
***The Report states that "OPIC had an MCL of about $19.2 billion as of June 2014."***
To clarify, OPIC had projects active as of June 2014 with a total commitment value of $19.2 billion. Liabilities at any given date are net of cancellations and repayments, for example. Thus, where the Report refers to MCL/liabilities, a more precise measure would be "commitments."

***Page 5: Regarding the vulnerability identified that OPIC's development impact "might be reduced by over-emphasizing financial returns…"***
OPIC emphasizes financial sustainability, not financial returns. As noted in President Littlefield's letter above, the basis of development finance is demonstrating the financial viability of business, despite the existence of difficult risk environments, and, in doing so, to stimulate others to invest. In fact, when a private sector investment is not financially sustainable, it also will not likely achieve its development impact. In addition to ensuring that OPIC supports financially sustainable investments as a key part of its development impact, OPIC has established a development impact matrix that measures the diverse projects OPIC supports across a uniform metric. OPIC does use self-reported data from project proponents in applying this metric. However, in using that data to estimate a projected development impact score, the Office of Investment Policy ("OIP"), whose analysts are independent from the project financing team, closely examines and questions that data.

***Page 5: Regarding the risks related to promoting labor and human rights and the risk related to avoiding unreasonable environmental risk, the Report lists OIP random project site visits as a major control.***
While OPIC's Office of Investment Policy does conduct randomized site visits, the main control to ensure compliance on labor, human rights, and environmental risks is the risk-based site monitoring that OPIC conducts in addition to its randomly-selected site monitoring. Projects that pose a higher potential risk for such labor and human rights impacts are more closely monitored than those with a lower potential risk for such impacts. OPIC considers this a prudent and resource-efficient approach to managing risks in a manner commensurate with the risks that are specifically identified for a project.

***Page 5: Regarding the vulnerability identified related to credit risk mitigation, the Report states that "…the changing geographic concentration of OPIC's liabilities makes credit risk indeterminate and constitutes a vulnerability***."

OPIC conducts extensive due diligence on the credit risks of individual projects, including review by a credit officer who is independent from the project team, prior to any decision to support a project. As each project is approved and documented, OPIC's direct or contingent exposure is explicitly quantified and reflected in obligation documents. OPIC's country risk ratings are coordinated with those of the Office of Management and Budget and assessed in the light of country risk ratings from a variety of private sector sources. In addition, OPIC conducts regular ongoing credit risk monitoring of projects in its portfolio through its Portfolio Monitoring Department.

***Page 6: The Report states that "OPIC might currently prioritize self-sufficiency and the mobilization of capital over development impact. As a result, potentially negative unintended consequences (say, to the environment) might be overlooked or OPIC might achieve less development impact than it otherwise could…"***
First, it is important to note that OPIC's policies with regard to environmental risk are harmonized with those of other development finance institutions, and OPIC works very hard with its clients to ensure that those high standards are implemented. Second, OPIC strongly believes that its policy standards are a key part of OPIC's development impact. With respect to the report's conclusion regarding an inconsistency between OPIC's financial sustainability and OPIC's enforcement of its policies, OPIC's internal controls prevent projects from moving forward if they are not consistent with OPIC's policy requirements. Each project that OPIC supports must receive policy clearances (including environmental) from an investment policy department that is independent from project teams. OPIC cannot commit funds to a project if the policy clearances are not received.

***Page 6: Corporate Culture. The Report states that "In one case study, examined for the risk assessment, a project's annual loan review identified six project risks, all pertaining to the project's ability to make payments; the review did not consider any risks related to not advancing development."***
The explicit purpose of the annual loan review, conducted by the Portfolio Management Department within the Department of Financial and Portfolio Management, is to review the financial performance of the project -- not to consider risks to advancing development. As previously noted, the financial performance of a project is integral to the development impact of the project and to ensure that OPIC remains financially self-sustaining. Development impacts are examined independently by the Office of Investment Policy pursuant to OPIC's site monitoring procedures.

***Page 7. Development scores. The Report states that the change in development impact scoring methodology does not "…enable comparison of development impact among projects or over time."***
OPIC updated its scoring methodology in 2011/2012, and that update included changing the scale from a 160-point scale to a 100-point scale. However, the scoring categories ("Indeterminate", "Developmental", and "Highly Developmental") did not change, but were recalibrated on the new scale. Therefore, comparisons both among projects and over time is possible, both within each category and among the three categories. Additionally, improvements in OPIC's methodology in measuring its developmental impact is informed by improvements

and updates to similar measurement methodologies in both the private sector and among OPIC's sister DFIs.

***Page 7. Regarding the potential to overestimate development impact scores.***
Development impact scores are based on five-year projections after operations begin. None of the projects that were reviewed by the OIG had been in operation long enough to reach the point at which OPIC could determine if they met their five-year projections. Because OIG is reviewing projects that have not yet reached their fifth year of operation, it is premature to draw any conclusion regarding whether scores were overstated in the projects that were reviewed.

As to the enforcement of clearance requirements, OPIC appreciates the case that the OIG has brought to its attention. This is an issue that normally would be reviewed and assessed during site monitoring, which has not yet occurred for this project. That said, given the nature of the particular project (a local bank making loans to local small businesses), the risk of negative impact to the U.S. economy is very small.

***Page 7. Regarding the management quotes included in the report.***
The remarks cited were made in the context of a meeting in which OPIC sought to explain OPIC's development finance institution model, as distinct from a grant-making aid organization. For example, there are people within OPIC whose sole duty is to mitigate credit risk. Similarly there are people within OPIC whose sole duty is to determine the developmental impact of a project. More generally, as noted above, because OPIC has a statutory mandate to be self-sustaining, it is vital that OPIC focus on repayment, and it is natural that those responsible for ensuring OPIC's financial sustainability would consider it paramount in their work. Finally, please note that, as a federal credit reform agency, OPIC is required to "aggressively" seek repayment. See Treasury Regulation – I TFM 4010 (http://tfm.fiscal.treasury.gov/v1/p4/c400.html).

***Page 9. Figure 6 appears to contain an error, perhaps in labeling.***
The text states that figure 6 shows two three-year periods, but the figures' headings indicate that the charts show one seven-year period and one four-year period.

***Pages 9 and 10. U.S. sponsorship. The Report states that "OPIC policy requires a 'meaningful connection or connections between an OPIC supported project and the U.S. private sector.' OPIC requires a sponsor to provide that connection. This policy is not necessary to mobilize capital and is not a statutory requirement." In addition, the Report suggests that OPIC may encourage a private sector investor to enter into a contract with a U.S. entity that provides little or no value to the project's business prospects.***
It is important to note that OPIC is required by its statute to "broaden private participation." One way that OPIC accomplishes this mission is by bringing together U.S. persons and firms with projects in developing markets. OPIC also hosts business workshops across the United States to engage entrepreneurs and small businesses in opportunities to grow in developing and emerging markets. Since 2006, these workshops have reached nearly 3,000 small businesses and entrepreneurs.
OPIC's policy requires that any U.S. participant that satisfies its policy regarding a "meaningful connection…[with] the U.S. private sector must either assume a meaningful share of the risk or

make a meaningful contribution to the viability of the project." Therefore, if a private sector investor enters into a contract with a U.S. entity that offer[s] little or no value to the project's business, such contract would not satisfy OPIC's internal policy requirements.

This section of the Report seems to imply that OPIC's efforts to mobilize private U.S. involvement may pose a higher than normal risk of illegal or unethical practices. However, OPIC employees are subject to the same federal statutes and regulations as employees of other USG entities that engage in commercial and developmental activities. The same requirements for disclosure of financial and personal interests apply to OPIC as to these agencies.

***Page 10-11. OPIC has Limited Influence Over Subprojects.***
***The Report states that "OPIC policy states that it will support only projects that are environmentally sustainable, are compatible with low-carbon development, and respect human rights."*** This is an incomplete summary of OPIC's Environment and Social Policy Statement ("ESPS"), which can be found, together with its implementing procedures, at OPIC's website.

***The Report also states that "…as a matter of policy, financial services projects (banks) are generally in Category C."*** The purpose of "screening" in OPIC's ESPS is to establish the environmental and social impact risk profile of a project. Many financial services projects are screened as Category C under OPIC's ESPS, not as a matter of policy, but as a matter of environmental and social impact risk profile. Many of OPIC's financial services projects are structured so that their environmental and social risks are relatively low. OPIC recognizes that OPIC funds in a financial services project could be on-lent to high risk activities. As a result, OPIC places restrictions on the use of OPIC proceeds, so that OPIC proceeds will not be used for high-risk activities without OPIC's explicit approval.

In addition, OPIC does not rely solely on the annual self-reported information to manage its compliance risks, as the Report implies. The self-reporting tool serves to collect regular data and potentially raise red flags. However, the main tool used to ensure policy compliance is site monitoring, both randomized and risk-based. In this same section, the Report states that in the context of financial intermediary projects, "As a result of weak control and monitoring difficulties, OPIC may not be fulfilling its mandate vis-à-vis the environment, labor rights, human rights, or U.S. trade." However, this conclusion does not reflect the fact that OPIC's review, conditions, and monitoring are specifically adjusted to the project risk profile. In those cases where policy risks are higher, OPIC asserts increased controls and monitoring, supported by specific rights in OPIC's contracts.

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