



Statement of Elizabeth L. Littlefield
President and CEO
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Before the
Subcommittee on Financial and Contracting Oversight
Committee on Homeland Security and Government Affairs
United States Senate

“A More Efficient and Effective Government: Streamlining and Strengthening Oversight of
Overseas Development Agencies”

Room SD-342 Dirksen Senate Office Building
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Madam Chair, Ranking Member Johnson, Members of the Subcommittee, thank you for inviting me to appear 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. An independent federal agency created in 1971, OPIC mobilizes private capital to help solve critical development challenges and in doing so, advances U.S. foreign policy and national security objectives. Because OPIC works with the U.S. private sector, it helps businesses gain footholds in emerging markets by catalyzing revenues, jobs and growth opportunities both at home and abroad. OPIC achieves its mission by providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds. OPIC operates in more than 150 countries on a self-sustaining basis at no net cost to U.S. taxpayers. In fact, OPIC has contributed to U.S. deficit reduction for 36 consecutive years.

OPIC's mission, simply put, is to use its financing and insurance programs to catalyze investments that promote development and U.S. foreign policy objectives in poorer countries.

Over the last four decades, OPIC's business model has proven to be nimble, successful, and profitable for the U.S. taxpayer by serving critical development and foreign policy goals while supporting U.S. business interests.

OPIC's statutory framework, contained in the Foreign Assistance Act (22 USC 2191 et seq.), requires OPIC to fulfill this mission by:

- working with the private sector here and in the host country,
- being financially self-sustaining,
- upholding high environmental and social policy standards,
- ensuring OPIC-supported projects will not harm U.S. jobs,
- using prudent underwriting and due diligence standards, and
- participating in only those transactions which the private sector could not otherwise undertake.

Thus, OPIC is a highly-specialized agency with some unique characteristics.

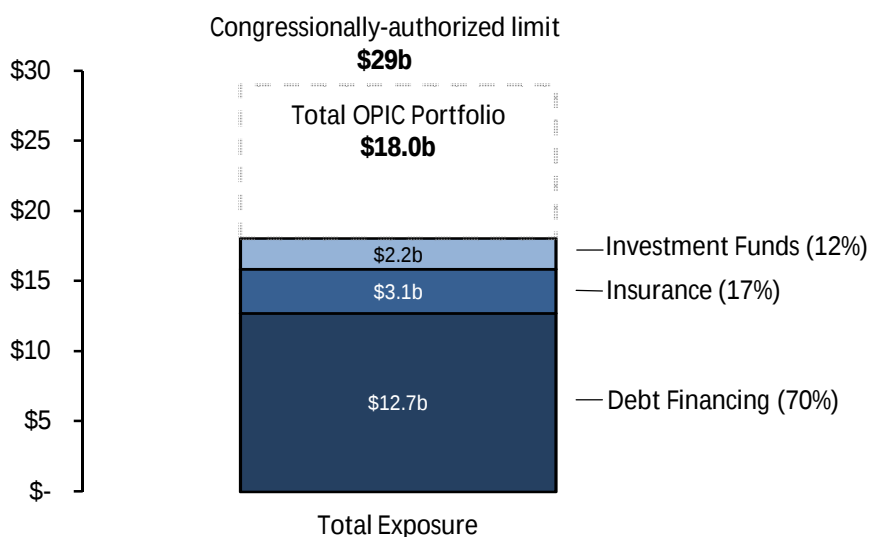
- It works exclusively with the private sector.
- Its professional staff comes largely from private-sector backgrounds -- principally individuals with developing country banking, insurance, and project finance experience.
- It is fully self-sustaining, returning a profit to the federal government each year.
- It adds a “development overlay” to all its activities, as well as high levels of financial, legal, environmental and social safeguards.

I. OPIC Operations

To give you an overview of OPIC’s operations, I would like to present the following charts:

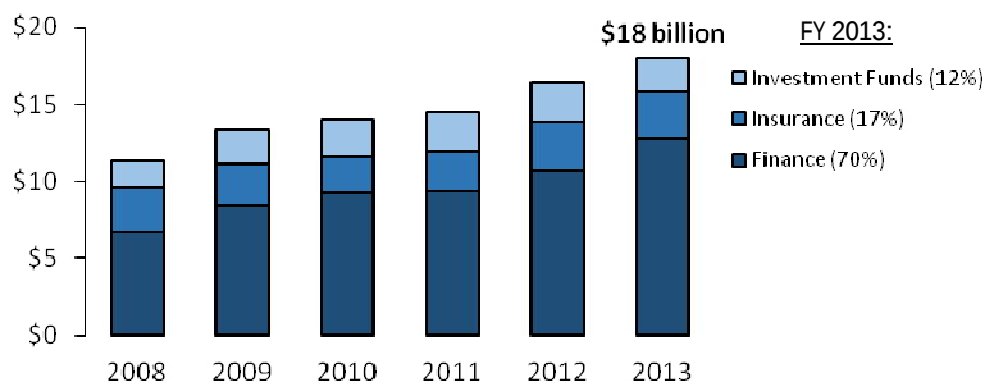
OPIC portfolio. Overall, OPIC has an \$18 billion portfolio of loans, guarantees, and insurance. This is well below our Congressionally-authorized limit of \$29 billion. OPIC’s portfolio growth depends critically on the number of its transaction teams. With more resources, OPIC could generate more transactions and more revenue to the Treasury.

Chart 1: OPIC Portfolio



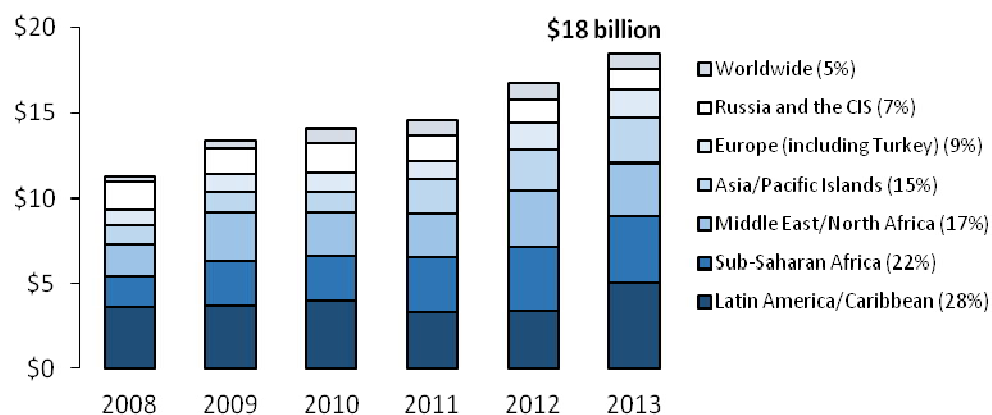
OPIC's activities are diversified by product line, region of the world, and business sector.

Chart 2: OPIC Portfolio by Product Line



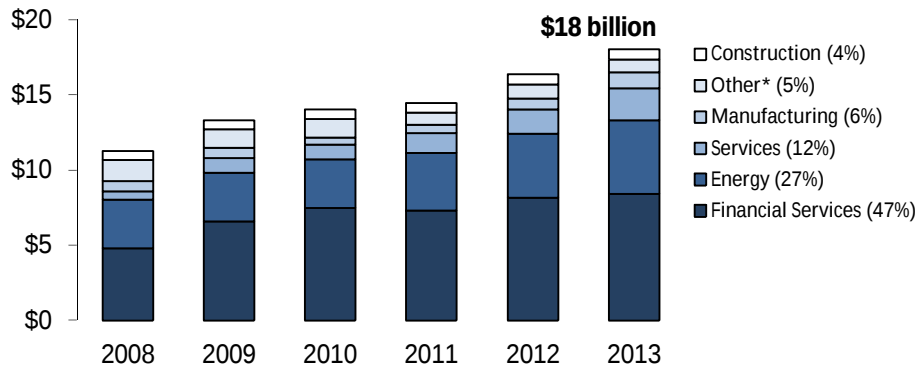
Growth of 10% in FY 2013 after landmark growth rate for FY 2012.

Chart 3: OPIC Portfolio by Geographic Region



Latin America/Caribbean is now the largest regional concentration, sub-Saharan Africa has grown the most in recent years.

Chart 4: OPIC Portfolio by Sector



Financial Services continues to represent the largest sector concentration.

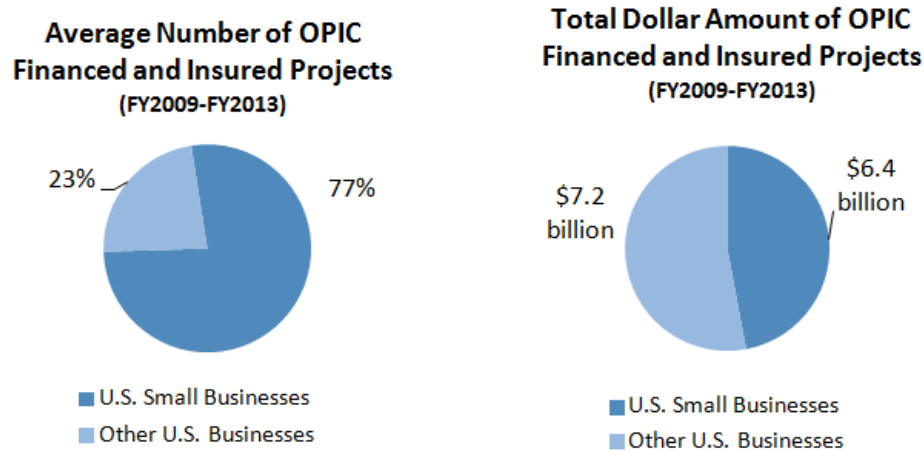
OPIC's product innovations. A key observation about OPIC's products is that OPIC basically invented two of them. In the 1970's there was no such thing as political risk insurance. OPIC brought it into the market and then broadened its reach in the 1980's. Because of OPIC's catalytic role, a private market has emerged and blossomed. Now there are private sector players, and the agency carefully avoids competing with them. OPIC continues to provide coverage in countries where private insurers do not wish to operate and for small businesses that private insurers do not wish to insure.

OPIC also largely pioneered the emerging markets private equity (PE) sector. In the 1980's, OPIC began encouraging private equity (PE) funds to come into the poorer countries where OPIC operates and created a specialized investment funds department to manage this activity. In the beginning, OPIC had to work hard to find any PE funds willing to take the step. Today, dozens of PE funds operate in this space. They even have their own trade association. So now OPIC can set the bar far higher for PE funds seeking our support and more readily mobilize investment into developmental markets. In addition to building up hundreds of successful businesses in the developing countries, the PE funds that OPIC has financed have returned over \$ 70 million to U.S. taxpayers. OPIC's partnership with these funds are a unique core competency, possessed by no other federal agency.

OPIC has a robust record of managing its assets and exposures during regional and even global financial crises. During the Latin American downturn of the 1980's, the Asian financial crisis of the 1990's and the global financial crisis of 2008-10, OPIC was not seriously impacted. OPIC's cumulative record through these crises would be impressive if it came from the most sophisticated private-sector lenders in the U.S. Yet, very few of these lenders operate in a significant way in the higher-risk foreign markets where OPIC is active.

OPIC support for U.S. small business. By design, OPIC involves U.S. small businesses in most of its transactions.

Chart 5: OPIC Support for U.S. Small Businesses



Over the past five years, from FY2009-FY2013, OPIC financed or insured 391 projects significantly involving U.S. small businesses. OPIC's portion of these projects is valued at \$6.4 billion and represents 77% of all OPIC transactions and 47% of the dollar value of all OPIC financing and insurance during that period.

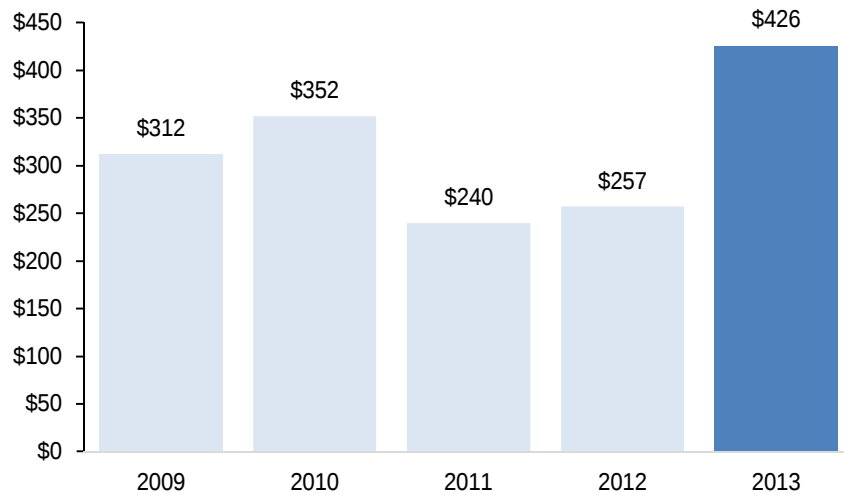
This is not just a commitment to helping U.S. small businesses gain footholds in emerging markets, as important as that goal is. It is also a process of showing small businesses *how* to do it, so they can keep on doing it, with or without future OPIC assistance.

OPIC is proud to participate not only in the efforts of the President's Global Development Council, but also the President's Export Council and the Trade Promotion Coordinating Committee to increase small business exports. OPIC is unique within the federal government in supporting U.S. small companies that want to invest in fast-growing emerging markets. OPIC's Small and Medium Size Enterprise Finance Department, the agency's biggest line department, focuses on this element of our mission.

Working together, all of OPIC's finance and insurance departments deliver on the statutory mandate for OPIC to be financially self-sufficient.

OPIC revenues. OPIC has recorded deficit-reducing collections for 36 consecutive years. Here is the recent record of OPIC's contribution to reducing the federal deficit.

Chart 6: OPIC Contribution to Deficit Reduction



In FY 2013, OPIC reduced the United States deficit by \$426 million, the 36th consecutive year that OPIC contributed to U.S. budget deficit reduction.

Because OPIC is a government corporation that works extensively with the private sector, it reports its revenues on both a private sector Generally Accepted Accounting Principles (GAAP) and a federal government accounting basis.

- On a private GAAP basis, OPIC made more than \$1 billion in GAAP profits [net income] for the U.S. government over the past five years (FY2009-13).
- On a government accounting basis, OPIC contributed almost \$1.6 billion in deficit reduction to the U.S. Treasury [outlays] over the past five years (FY2009-13).
- OPIC's administrative expenses, over the same five year period (FY2009-13), were \$264 million (an average of \$52.8 million per year). Thus for every administrative dollar appropriated to OPIC, the agency generated six dollars in deficit reduction.
- Over the life of the agency, OPIC has generated **more than** \$7.3 billion in deficit reduction.

Moreover, OPIC has a strong track record of success in its basic mission of catalyzing outside private investment in developing countries. For example in FY2013, each dollar in OPIC's appropriated administrative expenses is projected to catalyze \$173 dollars in outside investment to the developing and emerging world.

All of this has also paid big dividends in economic growth here in the United States. OPIC projects have supported more than 278,000 U.S. jobs and \$76 billion in exports of U.S. goods and services.

And, all of this has been achieved with a very small staff footprint: 229 full-time employees. In fact, OPIC's main constraint is not capital or skills, but staff capacity to meet the demand from U.S. businesses for OPIC's products and services.

How OPIC Develops its Transactions

OPIC's business process starts with business development. Our outreach to the nation's companies includes our "Expanding Horizons" conferences for small businesses, which have taken place in 17 cities from coast to coast, including St. Louis, and involved more than 2,500 companies since 2006. I am proud that our friends and colleagues from TDA have participated in nearly every one of these outreach conferences, as have other federal agencies including SBA and Commerce. Business proposals also come to us from OPIC's "Enterprise Development Network", a group of over 120 loan originators and business advisors worldwide who have been trained on OPIC's products and approval processes. In addition, many hands throughout the U.S. Government both here and abroad send potential clients and leads our way – including U.S. Embassies, Foreign Service Officers, the Commerce Department's Commercial Service, and USTDA.

Once we identify companies with the business plans and backing to be eligible for and in need of OPIC's assistance, we work with them to assess whether the project is viable – whether the economics and risks meet our development mandate and our risk tolerances.

Our "transaction teams" then take over, structuring a finance or insurance package custom fit for the company and the project. The basic criteria for OPIC financing include:

- The management team proposed for the project must be experienced and credible.
- The company must have significant "skin in the game". It must assemble a separate package of equity to underpin OPIC's loan or loan guaranty.
- The means for repaying OPIC must be clear, and if possible, collateralized.
- OPIC's loan should be senior – in other words, other investors should not receive returns while OPIC's (and by extension, the U.S. taxpayer's) exposure is left unreimbursed.
- Where appropriate, independent engineering and legal analysis will be commissioned and analyzed.

How OPIC Evaluates Credit Risks

As the transaction team is completing its work, OPIC's credit quality requirements are applied to the proposal.

- Based on guidance and supervision from OPIC's Board and its Audit Committee, as well as OPIC's Executive Management, the agency's Risk Management and Credit Policy teams measure and govern portfolio exposure, and provide individual underwriting clearance for each transaction. This provides OPIC with strategic assessments of risk, as well as transaction by transaction governance integral to any lending program.
- OPIC's Risk Management function is comprised of specialized staff responsible for developing portfolio risk measures across OPIC's diverse portfolio, and a risk tolerance framework to guide decisions and to demonstrate integrity to outside reviewers and auditors. Risk Management, for example, has been leading an effort to update OPIC's risk scoring methods with Moody's Analytics, to ensure that OPIC is aligned with industry best practices.
- OPIC's Credit Policy unit works at a transaction level, subjecting new transactions to a detailed analysis and ensuring compliance with OPIC's mission and underwriting guidelines. Credit Policy examines each transaction and advises on potential improvements and risks.

How OPIC Conducts its Due Diligence

Credit risk is not just about business models but also about reputations, experience, and the character of borrowers and investors. In collaboration with the Departments of State and Treasury, OPIC screens applicants with a comprehensive background check – using more than 200 databases covering all available public records and filings, plus additional research, including comprehensive credit checks, searches of local, state and Federal court filings, Foreign Corrupt Practices violation records, federal databases on money-laundering and sanctions violations, databases of politically-exposed individuals (family members or business associates of senior government officials), and Federal “Do Not Pay” databases.

How OPIC Applies its Investment Policy Standards

Parallel to its financial analyses, OPIC conducts a policy analysis of each project to gauge whether the transaction meets our mission-requirements for development impact, effects on the U.S. economy, and compliance with environment, labor, and human rights standards.

- OPIC estimates a project's development impact according to indicators in five broad categories ranging from direct job creation to broader development reach. OPIC's development impact

results are as strong as its financial results: projects committed by OPIC from FY 2009 to 2013, for example, are expected to create over 66,000 new jobs in developing economies over the following five years. Job creation is the most critical development impact that development finance can have: jobs bring income; jobs mean empowerment, especially for women and young people; quality jobs increase productivity, and; quality jobs build the foundation for sustainable growth.

- OPIC also makes sure that projects do not adversely affect U.S. employment. OPIC does not finance or insure projects that would result in the loss of any U.S. jobs.
- Finally, the policy review ensures a project's compliance with the range of statutory requirements and policy standards summarized in OPIC's 2010 Environmental and Social Policy Statement. Projects must demonstrate respect for human rights, including internationally recognized worker rights. Potential projects are also screened according to their potential for adverse environmental and social impacts; some are categorically prohibited on these grounds and others are subject to additional requirements.
- OPIC also monitors every project from inception through to the conclusion of OPIC support. Monitoring, including site visits, allows OPIC to capture, verify, and report data on the issues analyzed during the policy review.

OPIC's Internal Governance and Transaction Approval Process

Transactions that meet these criteria for credit, policy, and portfolio allocation requirements, are reviewed through multiple levels of oversight and several internal committees, including specialist and senior long time career staff. For larger transactions, as President and CEO, I lead committees comprised of senior management, senior level career staff, and OPIC vice presidents to review the transaction's compliance with legal, credit, and policy issues.

Ultimately, the largest OPIC transactions are reviewed by OPIC's 15-member Board of Directors before being approved. The Board is comprised of eight private sector members and seven federal government members. The private sector members are appointed by the President of the United States and confirmed by the US Senate. They are drawn from diverse sectors, including banking and private equity, and include representatives of small business, organized labor and cooperatives. By statute, the federal government members include the Administrator of the Agency for International Development, the United States Trade Representative or Deputy U.S. Trade Representative, and senior leaders from the Treasury, Commerce, State and Labor Departments.

OPIC's Transaction Monitoring and Portfolio Management

To maintain the integrity of OPIC's financial exposure, its reporting, and its responsibilities to the Treasury and the taxpayer, OPIC aggressively monitors and manages all financial exposures throughout the lifetime of the exposure.

Once the disbursement has been made on the loan or loan guaranty, or the insurance policy has been executed, OPIC follows through with ongoing portfolio supervision to ensure that OPIC's financial interests are monitored and enforced and that accurate information are communicated through OPIC's financial statements and federal reporting. Monitoring, which includes a combination of client self-reporting and site visits, also allows OPIC to capture, verify, and report data on the issues analyzed during the policy review. In this manner, OPIC is able to continue to monitor whether the projects it supports meet OPIC's standards for environmental and social impact management and deliver the intended results on the ground.

a. Integration of Financial Audits and Risk

OPIC is subject to the Federal Credit Reform Act of 1990, and implements other best practices (FMFIA, CFO Act, and Circular A123).

For example, OPIC has invested significant effort in a new credit methodology with the support of Moody's Analytics. Each transaction is individually scored, reviewed annually, and subject to a reserve process whose results are in turn subject to internal controls audits and external auditor study. Additionally, this new framework system will be regularly updated to maintain best practices moving forward.

Evidence of the rigor of OPIC's transaction selection and structuring, internal controls, and risk management practices can be seen in some basic statistics about OPIC's performance:

- The agency's net write offs have been less than 1% of outstandings for each of the last 5 years.
- OPIC's cumulative re-estimates, a measure of risk under the Credit Reform Act, show more than \$1 billion in net returns to the Treasury since 1990. In other words, OPIC outperformed its own Credit Reform Act risk projections by a cumulative \$1 billion.
- OPIC's generates "negative outlays" to the Treasury, demonstrating that it collects more than it spends. Further, OPIC maintains reserves pursuant to its charter to ensure that it remains self-sustaining.

b. Internal controls

OPIC is committed to ensuring that effective and efficient internal controls are in place to protect the Corporation's assets from waste, fraud and abuse. The agency's internal control program was established in accordance with the Office of Management and Budget's *Circular A-123* and operates within the COSO framework.

The agency implements a risk based approach to its annual testing that takes into account both industry best practices and the Office of Government and Accountability's *Financial Audit Manual* (FAM). OPIC policies and the Audit Committee provide the scope and governance authorities for the program.



The COSO Framework is a method of looking at an organization's control environment in a holistic way

The Council of Sponsoring Organizations (COSO) is a joint initiative of the five private sector organizations listed below and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

- American Accounting Association
- Financial Executives International
- The Institute of Internal Auditors
- American Institute of CPAs
- The Association of Accountants and Financial Professionals in Business

As an additional oversight mechanism, the Foreign Assistance Act also authorizes the Inspector General of USAID – the agency from which OPIC was spun off in 1971 – to conduct such investigations and inspections of OPIC as may be necessary.

c. Outside Independent Audits

Every year, as directed by OPIC's authorizing statute, OPIC's books are audited by outside independent auditors. In accordance with best practices, these auditors are under the supervision of the Audit Committee of the OPIC Board of Directors, not OPIC management.

In the 41 years since its inception, OPIC has received a "clean" (unqualified) audit, with no material weaknesses identified in every audit. To preserve and build on this record, OPIC continues to invest extensively in internal controls, risk management, data systems, and accounting procedures, even under the constraints of sequester and limited appropriations.

II. Working with Other U.S. Government Agencies

OPIC is constantly looking for ways to improve its efficiency including exploring opportunities for interagency coordination. Over the last several years, OPIC has forged exceptionally strong working relationships with the other development agencies including the State Department, USAID and USTDA. We have found creative ways to leverage the respective strengths of our agencies to the benefit of U.S. companies and investors in emerging markets, while maintaining the critical differences that Congress intended. While our two agencies have distinctly different missions, mandates, and highly-specialized technical skill sets, we collaborate in a number of areas to improve efficiency, particularly because of our small sizes.

To maximize financial resources and deepen interagency trade and investment links, OPIC and USTDA supported by the Department of State, recently established the Asia-Pacific Clean Energy Program at the U.S. Embassy in Bangkok, Thailand. The program is intended to catalyze private U.S. investment in the Asia-Pacific region by offering a range of tools, such as financing, insurance, project preparation and technical assistance support, while enhancing U.S.-Asia business partnerships.

And last year, both agencies set up a similar center at the U.S. Consulate in Johannesburg, South Africa. The U.S.-Africa Clean Energy Development and Finance Center includes OPIC, USTDA and the U.S. Export-Import Bank and is working with the U.S. private sector to provide a coordinated approach to clean energy project development in sub-Saharan Africa.

In both cases, co-locating staff like this or providing a 'one-stop shop,' enables us to spot project opportunities and refer clients to one another that are in different places in the trade and investment process. This results in a more seamless interface with private sector clients, faster referrals, better integration of client services, and ultimately broader opportunities for U.S. businesses resulting in stronger development outcomes.

How OPIC Complements and Does Not Compete with the Private Sector

It is important to note that the Foreign Assistance Act calls on OPIC to be “additional”. Congress did not want OPIC competing with the private sector or crowding out private sector investments.

Accordingly, OPIC weighs every transaction in terms of whether the private sector could undertake it without OPIC’s participation. Before beginning a transaction, OPIC confirms with its clients whether they have sought financing or insurance elsewhere. OPIC transaction teams are trained to evaluate this factor, and the investment papers used in OPIC’s internal analyses of proposed transactions specifically address it. This is also a criterion that is weighed in every Credit Committee meeting, every Investment Committee meeting, and every Board of Directors meeting that an OPIC transaction may have to pass through. In the area of OPIC’s political risk insurance, Congress has required OPIC to annually assess whether OPIC is impinging on the private sector political risk insurance field by, among other things, convening a meeting with the leaders of the field to discuss the matter.

In addition, OPIC requires a level of rigor and oversight that goes beyond the requirements of most private sector financiers in terms of environmental, social and worker protections in addition to assurances that the projects that OPIC finances do not have a negative impact on the U.S. economy.

So while we will remain attentive to this, at present we are not aware of any private-sector entities offering the same services OPIC offers for the projects and markets in which we operate.

Chairwoman McCaskill, Ranking Member Johnson, thank you again for the opportunity to discuss OPIC, its mission and mandate as the U.S. Government’s development finance institution. I would be happy to take any questions at this time.