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A MORE EFFICIENT AND EFFECTIVE GOVERNMENT: STREAMLINING OVERSEAS TRADE AND DEVELOPMENT AGENCIES

HEARING

BEFORE THE

SUBCOMMITTEE ON FINANCIAL AND CONTRACTING OVERSIGHT

OF THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

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A MORE EFFICIENT AND EFFECTIVE GOVERNMENT: STREAMLINING OVERSEAS TRADE AND DEVELOPMENT AGENCIES

WEDNESDAY, DECEMBER 11, 2013

U.S. SENATE,
SUBCOMMITTEE ON FINANCIAL AND CONTRACTING OVERSIGHT
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2 p.m., in room 342, Dirksen Senate Office Building, Hon. Claire McCaskill, Chairman of the Subcommittee, presiding.

Present: Senators McCaskill and Johnson.

OPENING STATEMENT OF SENATOR MCCASKILL

Senator MCCASKILL. Welcome, everyone. We are glad to see you. Thank you for coming to the hearing today.

Our hearing today deals with streamlining and strengthening oversight of overseas trade and development agencies. We are here today to review the opportunities to improve the efficiency and effectiveness in oversight of the Overseas Private Investment Corporation (OPIC) and the U.S. Trade and Development Agency (USTDA).

On January 13, 2012, President Obama requested authority from Congress to reorganize and streamline agencies within the Federal Government. The first proposal by the White House for this reorganization authority was to reorganize six of the Federal agencies that focus on business and trade—the Department of Commerce's core business and trade functions, the Small Business Administration's (SBA) trade functions, the Office of U.S. Trade Representative, the Export-Import Bank, OPIC and TDA.

OPIC and TDA serve an important role in our country's trade and development goals.

OPICS position as a lender and insurer of last resort helps U.S. businesses expand in areas that have potential but may be too risky for other insurers and lenders.

Similarly, TDA's facilitation of partnerships between foreign countries and U.S. business interests through feasibility studies is important to growing U.S. exports.

Both agencies also report significant gains on investment. For example, OPIC has returned millions of dollars earned on its projects to the Treasury every year, and TDA's internal audits show that the agency creates $73 in exports for every dollar of programming.

As with every part of the Federal Government, however, there is always room for improvement. And, as with every part of the Federal Government, oversight is essential.

While OPIC and TDA appear to be very successful, I have questions regarding their internal controls and oversight. Neither agency has an independent inspector general (IG) or processes to achieve independent audits and reviews of their programs.

When I pushed to have a special inspector general installed to oversee the Troubled Asset Relief Program (TARP), many pushed back because they did not think it was necessary. And just this weekend, the Washington Post reported that since 2008 the Office of the Special Inspector General for TARP has pursued criminal charges against 107 senior bank officers, most of whom have been sentenced to prison. That office's work has resulted in $4.7 billion in restitution paid to the government and to victims.

So I want to have a discussion today about the best way to implement adequate oversight to ensure OPIC and TDA do the best work they can on behalf of U.S. trade and development goals.

I also have questions regarding the work each agency does.

Under OPIC's mission statement, it is supposed to focus its investment on "less developed countries in areas and countries in transition, from nonmarket to market economies."

However, currently, only 0.2 percent of OPIC's 2012 spending and 6 percent of OPIC's total portfolio is invested in low-income countries. It appears that approximately one-third of OPIC's 2012 investments were made in countries where OPIC's own guidelines say it should restrict spending.

I also have questions on how some of OPIC's specific investments comport with its development mission. For example, it has approved projects to finance a chain of Wendy's restaurants in the country of Georgia, expand a Porsche-Land Rover dealership in Ukraine, finance a Papa John's franchise expansion in Russia and construct a shopping mall in Jordan, expand billboard advertising in Ukraine and build a Marriott Hotel in Armenia and Georgia, also to expand a technology leasing company's operations in Portugal.

I also have questions about the transparency of awards. For example, because TDA provides grants only to foreign entities, their information is not provided to Grants.gov even though all the funds are awarded directly back to U.S. companies. In addition, their information is not available on the equivalent website for grants to foreign entities, the Foreign Assistance Dashboard, which is run by U.S. Agency for International Development (USAID).

Although TDA has provided its data to be uploaded onto the FA Dashboard every year as required, USAID has not on-ramped USTDA onto the system.

In addition, as the President has noted, there are many areas of overlap in the Federal Government's various agencies that have trade functions. Despite the efforts of agencies like OPIC and TDA to carve out a niche, there is a lot of potential to streamline trade functions to ensure that there is as little duplication as possible and also to give U.S. businesses, many of them small businesses, a clear process to follow when looking for opportunities.

U.S. businesses and all taxpayers deserve to have these functions carried out as efficiently and effectively as possible.

I look forward to a frank and open discussion of these issues today, and I thank the witnesses for being here, and I look forward to their testimony.

Senator Johnson.

OPENING STATEMENT OF SENATOR JOHNSON

Senator JOHNSON. Thank you, Madam Chairman.

I would also like to welcome the witnesses and thank them for their testimony.

I appreciate the hearing, and I certainly also appreciate your determination to make sure we get effective government.

As we consider consolidation of these agencies, which I think on the surface really sounds like a good idea, we do need to make sure that we actually get the efficiencies out of those consolidations.

We are, obviously, serving on the Committee that oversees the Department of Homeland Security. A decade ago, that was consolidated—22 different agencies—and I have yet to convince myself that we are actually saving money. I am concerned that what we did is we just created a larger bureaucracy that is not particularly functioning well.

I am hoping that in this potential consolidation that we actually would look at consolidating functions and reducing overall budgets if we do these types of consolidations.

Like I say, it sounds good, but sometimes making something bigger does not make it better. And I am certainly hoping the agencies are on guard about that eventuality.

But with that, I am looking forward to hearing the testimony, and I apologize in advance for having to leave the hearing a little bit early.

Thank you.

Senator MCCASKILL. No problem. Thank you, Senator.

Let me introduce the witnesses.

First, we have Elizabeth Littlefield. She is President and Chief Executive Officer (CEO) of the Overseas Private Investment Corporation. In this role, she also serves as Chair of OPIC's Board of Directors.

Prior to joining OPIC, Ms. Littlefield was the CEO of a policy center dedicated to financial services access, and Director for the World Bank's Financial and Private Sector Division.

Ms. Littlefield previously served as J.P. Morgan's Managing Director of Emerging Markets in Europe, the Middle East and Africa.

And Leocadia—did I say that correctly?

Ms. ZAK. Yes, thank you.

Senator MCCASKILL. Leocadia I. Zak is the Director of the U.S. Trade and Development Agency, TDA. She is responsible for overseeing all of the agency's operations.

Prior to joining TDA, Ms. Zak worked as an attorney practicing in the areas of corporate, municipal and international finance, and is an adjunct professor of law at Boston University and Georgetown.

It is the custom of this Subcommittee to swear in all witnesses that appear before us. So, if you do not mind, I would ask you to stand and take the following oath:

Do you swear that the testimony you are about to give before this Subcommittee is the truth, the whole truth and nothing but the truth; so help you, God?

Ms. LITTLEFIELD. I do.

Ms. ZAK. I do.

Senator MCCASKILL. Let the record reflect the witnesses have answered in the affirmative.

We would ask you that your oral testimony be limited to around 5 minutes. We are pretty laid back here, and if it is a little longer, no one is going to object.

And, obviously, you are welcome to put anything into the formal record of the hearing that you would like.

And we will start with you, Ms. Littlefield.

TESTIMONY OF THE HON. ELIZABETH LITTLEFIELD,[1] PRESIDENT AND CHIEF OPERATING OFFICER, OVERSEAS PRIVATE INVESTMENT CORPORATION

Ms. LITTLEFIELD. Thank you very much, Madam Chairman and Ranking Member Johnson. Thank you, Members of the Subcommittee as well. Thanks for inviting me here today alongside my good friend and colleague, USTDA's Director Zak.

I am Elizabeth Littlefield, President and CEO of the Overseas Private Investment Corporation.

So, to begin, let me just share a couple of words about OPIC and what we do.

OPIC is the U.S. Government's development finance institution, and our mission is to support sustainable economic development in the poor, but emerging, countries of Africa, Asia, the Middle East, Europe—emerging Europe—and Latin America.

We do that by catalyzing U.S. private capital investments into projects that help solve these countries' important development challenges, like access to energy and health services. In so doing, of course, we help advance U.S. foreign policy and national security objectives. At the same time, we help U.S. businesses gain footholds in those fast growing, emerging markets, which of course spurs growth and job creation here at home.

And, as you know, nearly 95 percent of the world's customers live outside the U.S. borders, and all of the 100 top fastest growing economies last year were in emerging markets. So helping U.S. businesses tap these markets is key to our own growth.

So how do we support these businesses? OPIC provides, as you said, Senator, companies and investors with market-based long-term loans and guarantees as well as political risk insurance. We work with a very broad range of U.S. clients, but importantly, small and medium enterprises represent nearly three-quarters of our projects.

Our development mission and mandate means that OPIC projects build critical infrastructure, like roads and food storage

[1] The prepared statement of Ms. Littlefield appears in the Appendix on page 27.

and housing, which improve low-income families' access to energy, clean water, health services and schooling, for example.

As you mentioned, Senator, OPIC charges fully cost-covering fees and interest rates, and as a result, for more than 36 consecutive years, the agency has operated on a fully self-sustaining basis at zero cost to the taxpayer, contributing to deficit reduction in each of those years. This past fiscal year, OPIC's income reduced the Federal budget deficit by $426 million.

I would like to just offer two quick examples of the range of OPIC projects.

So, first, a Missouri-based company is using a $250 million loan from OPIC to build and operate a 60-megawatt solar photovoltaic plant in Boshof, in South Africa's Free State Province.

At the other end of the spectrum and across the planet, a Georgia-based family owned business that was selling low-cost cotton pants throughout the world wanted to support the U.S. Government's effort in Afghanistan. They came to us, and OPIC lent this organization $3 million over time in a tranche-based, performance-based loan, to have them build a factory outside of Kabul to make uniforms for the Afghan military and police. The factory employs 1,200 Afghan women, most of whom are war widows and who are, for the first time ever, working outside of the home, earning money to support their families.

With our operational budget of only $53 million, which pays for our very small and highly specialized staff of only 225 people, the agency is able to execute around 100 such projects in any given year.

Since the agency is profitable, on average, every single dollar invested in OPIC's administrative or operating budget results in $6 in income for deficit reduction—1 to 6.

With additional staff resources, OPIC could generate more projects, support more U.S. businesses, contribute more to help economic development in poor countries, all while contributing even more to deficit reduction.

So I have addressed the agency's financial efficiency, but I also want to underscore our commitment to operational efficiency.

In the past 4 years, OPIC has been laser-focused on further streamlining and strengthening the agency's already very strong internal controls, and on improving and automating processes to improve performance and oversight, all while cutting costs at the same time. When working with a very small budget, every single penny matters.

OPIC's consistent and very strong performance results can be measured both transparently and tangibly in our bottom line—our income every year. These results, of course, are achieved thanks in part to this robust and state-of-the-art system of oversight and internal controls with multiple and reinforcing layers.

It is noteworthy that a full third of our staff work in the areas of oversight and risk management, including policy and legal compliance—a full third of our staff.

On top of that, OPIC has an independent 15-member board of directors with both private and public sector members. The board appoints an independent audit committee, and in addition, the OPIC is currently served by the USAID inspector general.

So I have addressed the agency's financial effectiveness.

So consistent with private sector practice, OPIC's financial statements are audited by an independent financial auditor every single year, and we are very proud to have received an unqualified audit every single, solitary year of the agency's existence. This, along with our financial performance and the fact that our defaults are less than 1 percent net of recoveries every year, I think speaks volumes about the agency's performance, particularly in light of the very difficult markets in which the agency operates.

We report regularly to Congress on our results, and in fact, there are nine separate reports provided each year, including six which are specifically related to OPIC's financial risk and development impact.

As a small agency, OPIC works in close collaboration with other agencies. We refer businesses that need feasibility studies to the experts at USTDA, and we rely on the State Department's economic officers to be our eyes and ears on the ground.

We partner with other agencies to leverage our strengths and our technical expertise for the benefit of U.S. companies while at the same time, maximizing, as you said, Senator, efficiency and agility, and maintaining the critical differences that Congress intended when it established us as separate entities.

So, just a couple of examples in closing.

Our friends and colleagues from TDA, Commerce and Ex-Im and others have all participated in nearly every one of our Expanding Horizons Workshops, which we carry out in cities throughout the country, including St. Louis. This enables the teams to show small businesses how they can actually access services from the different specialized Federal agencies.

In the immediate aftermath of the Arab Spring and at the request of the Administration and the State Department, OPIC partnered together with USAID to establish small lending facilities in Egypt and Jordan to address the needs of stimulating private capital investment and job creation in those critical markets.

And, of course, every single day of the week my teams are in close contact with the excellent USAID, State Department and Commerce officers in the embassies throughout the world where we work.

So OPIC's model of leveraging private sector investment for development is increasingly crucial at a time of constrained public resources and when the private sector is playing an ever greater role in international development and U.S. companies are, at the same time, seeking growth opportunities in the developing world.

Our model enables us to support low-income countries while leveling the playing field for U.S. businesses and earning incomes for the taxpayer at the same time. It fosters the kind of foreign engagement that projects the best of American values, standards and innovation and good will.

And, finally, I would like to say, Senators, that actually the timing of this hearing is rather auspicious as next week is the 30th anniversary of OPIC presenting its final check, which manifested itself in a large cardboard piece of paper handed to President Reagan, that final check to the U.S. Treasury which paid back all of our original startup appropriations.

So I am thankful for the opportunity to lead an agency that is having such a powerful impact around the world and using such an efficient and effective business model to do so.

Thank you for your time, and I look forward to answering any questions you may have. Thank you.

Senator MCCASKILL. Thank you very much. Ms. Zak.

TESTIMONY OF THE HON. LEOCADIA I. ZAK,[1] DIRECTOR, U.S. TRADE AND DEVELOPMENT AGENCY

Ms. ZAK. Chairman McCaskill, Ranking Member Johnson and Members of the Subcommittee, thank you for this opportunity to testify about the U.S. Trade and Development Agency's mission, operations, economic impact and oversight of funds. We appreciate your invitation to describe our efforts to level the playing field for U.S. companies overseas as well as to describe the procedures by which we ensure the agency's continuing efficiency and effectiveness.

I would like to begin by offering a bit of a personal perspective; I was raised by a family that owned a small business. From a young age, I worked with my parents and siblings in almost every aspect of my father's veterinary clinic, from cleaning animal cages, to customer service, to accounting. I learned from my parents, who grew up during the Great Depression, to watch every penny.

I bring those values to everything I do, including managing USTDA.

Congress established USTDA as an independent agency in 1992 in order to—and I quote from the statute—"promote United States private sector participation in development projects in developing and middle-income countries, with special emphasis on economic sectors with significant United States export potential."

USTDA's dual Congressional mandate is unique among Federal agencies in requiring that the Agency both provide foreign assistance focused on economic development and support U.S. job creation through exports.

USTDA engages the private sector in development activities at critical early stages when technology options and project requirements are being defined. By highlighting opportunities for the use of U.S. expertise and technology when they can effectively be incorporated into project planning, the agency increases the likelihood that implementation will include U.S. exports.

USTDA is a streamlined agency that takes rapid and targeted action to create meaningful, project-building partnerships when the need and opportunity are greatest.

USTDA provides early stage grant funding for projects that may ultimately be financed by any number of entities, including U.S. Government agencies like Ex-Im Bank or OPIC, multilateral development institutions such as the International Finance Corporation (IFC), or commercial banks.

Furthermore, the Agency can leverage financing from foreign governments in developing and middle-income countries.

There is no U.S. private or public sector equivalent for USTDA, as a grant-making agency for early project planning.

[1] The prepared statement of Ms. Zak appears in the Appendix on page 41.

In the Agency's history of linking U.S. businesses to export opportunities, USTDA has generated over $45 billion in U.S. exports. In fiscal year 2013 alone, the Agency identified nearly $3 billion of new exports, which has helped to support approximately 14,000 jobs in the United States. This is a tremendous return given the Agency's appropriation of $47.5 million last year.

The Agency's success, in part, results from its rigorous, evidence-based decisionmaking processes. We continuously evaluate our program tools to determine their overall effectiveness. This exercise allows us to look both backward, at past success as well as lessons learned, and forward, toward forecasted trends and future opportunities, in order to prioritize the countries and the sectors on which we will focus in the coming year.

This data-driven approach also informs the Agency's project preparation and selection processes. USTDA's talented, expert staff prepares funding requests for specific program activities. Each of these is reviewed and approved by the Agency's senior management.

USTDA staff believes in, and is proud of, our robust system of internal and external controls, which was designed to prevent waste, fraud and abuse, as well as to maximize the return on every U.S. taxpayer dollar the Agency spends.

USTDA closely monitors the use of both its program and operating funds, and because we use the Interior Business Center (IBC) of the U.S. Department of Interior as our paying agent, there are additional checks on every payment made by the agency.

Every year, we engage independent third-party companies, mostly recently KPMG, to audit our financial statements. Since 1993, the first full year of operation, the Agency has received unqualified audit opinions.

But we also evaluate our programs and processes regularly by contracting with third-party companies to perform program and process audits.

At USTDA, we pride ourselves on being efficient and effective. We have a long history of streamlining the Agency's functions through cost-effective arrangements with shared service providers. For example, currently, we have agreements with IBC for human resources management, staffing and personnel matters, financial statements and payroll processing, as well as for travel authorization and voucher processing.

Arrangements like these have allowed us to take advantage of our providers' specialized technical expertise, allowing the employees to focus on achieving our mission.

The Agency also continuously looks for additional ways to save costs. For example, USTDA previously maintained its Oracle financials on a standalone server hosted by IBC. We developed a plan to migrate the Oracle server to a shared platform, thus reducing our annual expenditures by 50 percent.

By identifying savings like these, we have been able to streamline our operating expenses down the lowest levels and still allow for the reasonable management of our program. In fact, USTDA's operating expenses have remained flat-lined since fiscal year (FY) 2010.

In a time when results are more important than ever, we are providing our best results. As was indicated, the Agency's current export multiplier, $73 in U.S. exports for every dollar programmed, is the highest in USTDA's history.

The Agency is committed to remaining an agile, responsive organization that supports U.S. jobs through exports while simultaneously providing important early project planning assistance to developing and middle-income countries.

Furthermore, I think it is very important for the American public to have examples of agencies that are effective and efficient and watch out for the taxpayer dollar. I truly believe that USTDA is one of those agencies.

Madam Chairman, Members of the Subcommittee, this concludes my remarks. I look forward to the questions.

Thank you very much.

Senator MCCASKILL. Thank you.

And, since Senator Johnson has another important hearing he has to attend, I want to give him the opportunity to ask some questions before he has to leave.

Senator JOHNSON. Thank you, Madam Chairman.

This is a question for both witnesses.

You both talked about controls and monitors and evidence-based decisionmaking, program audits, process controls—those types of things.

Can you just tell me what are the main criteria you use in terms of grant-making or loan guarantees or loan-making?

Specifically, we will start with Ms. Littlefield.

Ms. LITTLEFIELD. Thank you very much, Senator.

So the No. 1 criteria is those countries and those investments that our private sector clients are asking for. So we tend to go where the markets would like us to go, where they need our support.

We are open currently in about 161 countries, and that list of places where we are open for business is determined by the income level of the country, whether or not we have a bilateral investment agreement and whether or not it is a country where are prohibited from working. For example, China and Sudan are both countries where we do not work for human rights reasons. In China, we have been closed ever since Tiananmen Square.

So that is the eligibility. Beyond that, we looked for three things.

One is whether or not the project proposed is going to have a positive development impact on that country, whether the client himself is eligible as a U.S. company, whether the project is commercially viable and we are sure we can get paid back, and then last, I would say we certainly make sure that project is consistent with all of our environmental, human rights, labor and other policies, as well as the policies that relate to ensuring that our projects have no damage to the U.S. economy or jobs.

Senator JOHNSON. Can you quickly describe some of the more typical projects that you are dealing with?

Ms. LITTLEFIELD. So I mentioned a few in my testimony, but I will mention just a few more if you would like.

For example, in Togo, the West African country of Togo, which had severe energy deficits, we financed the creation of a tri-fuel power plant that tripled the amount of power that country was able to produce and enabled it to export to neighboring countries, for example.

All the way at the other end of the continent, in Rwanda, we have been financing just last year a man and his wife who are horticulturalists, who became interested in that country and in the very difficult time it is having feeding its own people. They have now exported their own horticultural technologies and have set up in Rwanda and are producing new crops of bananas and pineapples that are 10 times as productive as the crops that they replaced.

So that is just—one is a $150 million project, and one is a $3 million project.

Senator JOHNSON. Are these always with some private sector firm, or are they also sometimes loans with loan guarantees to governments?

Ms. LITTLEFIELD. We are required by Congress and by statute to involve the private sector in everything that we do.

Senator JOHNSON. OK. Ms. Zak, what about your criteria for your grants?

Ms. ZAK. Thank you very much.

As I mentioned, we have a very robust strategic planning process where we annually look at where there are opportunities from the host country that match with the U.S. businesses and what it is that they have the ability to provide. And I think that is very important.

So the criteria, one, include: Will there be mutual benefit for meeting our dual mandate of economic development and jobs here at the United States? So we want to make sure we have both of those.

The other is we want to be sure that we are looking at projects that have a reasonable likelihood of financing. They are not just pie in the sky, but from our experts in our office, they are projects that we believe have an opportunity to be able to move forward, and we want to be sure to level the playing field for those projects.

The other thing that we look at, as I indicated, was the development impact in-country because we believe that this is a good way to have a positive impact in the future with respect to the U.S. economy.

And, finally, we also look at whether or not there is competition from other countries. Our goal is to be able to level the playing field for U.S. businesses in what it is that we do, and it is also our goal to bring the private sector to development so that there is a return to the U.S. economy from development dollars.

Senator JOHNSON. Am I correct to assume that maybe your agency would be the first on the ground in a particular country and a particular opportunity, and then you would be working to turn that over to Ms. Littlefield's organization? Is that how it works?

Ms. ZAK. Yes. We are often referred to as a SWAT team that is first on the ground to be able to do an evaluation of projects that are likely to be able to move forward with U.S. exports. Sometimes those projects move forward with OPIC, but oftentimes, those projects move forward with the Export-Import Bank or the host country government or the multilaterals.

So one of the things that USTDA brings is the ability to work with financing from a number of different institutions.

Senator JOHNSON. OK, then the last question for Ms. Littlefield.

I love the fact that we have an agency that actually makes a profit and returns money to the Federal Treasury, but at the same time that sends off some bells and whistles, in my head at least. Do you ever come under criticism for competing with the private sector, and would that be a legitimate concern?

Ms. LITTLEFIELD. So, thank you for that question, Senator.

It is a question because, as you say, we are one of the few agencies in the U.S. Government that do generate income. But, actually, no, we do not compete with the private sector.

Statutorily, we do not compete with the private sector, but we also require every one of our project sponsors to represent that that financing is not available in the private markets.

Also, why doesn't the private market do this if it is so attractive? And the reasons for that are quite straightforward.

One is because we are able to issue long-term debt we can do very long tenors, and many of these projects in emerging markets require long maturities that the banks cannot do.

Second, we have a 40-year track record in working in these markets, and most banks do not have that.

Third, most of our clients are small businesses, and small businesses, as you well know, have a very difficult time getting bank finance anywhere.

So we do not compete with the private sector at all but work closely with it.

And, in fact, we welcome the chance to work ourselves out of business. We like creating new markets and forging ahead. For example, we invented the political risk insurance product several decades ago, and now we are doing less and less of it as the private insurers are now coming in. So our political risk business is actually restricted to the super risky countries like the Afghanistans and Iraqs and Haitis and South Sudans of the world.

But, if I may add, so the private sector we do not duplicate or compete with. I hope that is clear.

But more concerning is—and Ms. Zak mentioned this when talking about leveling the playing field. More concerning is the public sector because every other G–8 country, G–7 country and many others have the equivalent of OPIC in the public sector that is designed to help their businesses invest in emerging markets.

But, unfortunately, those other countries have agencies that are far bigger than we are, and so we are not able to invest—although their economies are far smaller than the U.S. economy, not to mention—so, Europe. All the European agencies tend to be larger than we are relative to our economy, and not to mention the Chinese.

So it is not the private sector. The private sector we are helping. It is the public sector that I worry about.

Senator JOHNSON. OK. Well, again, thanks for your testimony and your answers to my questions.

Thank you, Madam Chairman.

Senator MCCASKILL. Thank you.

I have a lot of questions.

One of the reasons we are having this hearing today is I am constantly challenging my folks to find places where we have not taken a look. That does not mean that there is anything that you are doing wrong, but everybody that operates within the government should have oversight.

Everyone should have independent oversight, and frankly, if you are doing really well, it is going to do nothing but make you look even better.

So that is the reason we are here today, but I am very curious about both of your agencies and the practical impact of how you work.

And I guess my first question would be I am a small business, and I have an interest in foreign investment and/or exports. How in the world do I find you guys?

Who is it that brings me—I mean, I had never heard of you, and I am fairly knowledgeable about the Federal Government, certainly light years more knowledgeable than most of the small businesses that operate in Missouri.

So who brings these businesses to you?

You are not telling me that some small business in Missouri just picks up the phone and calls you, Ms. Littlefield. Who brings them to your door?

Ms. LITTLEFIELD. So I am happy to start, and Lee, you may want to add to this.

So you are absolutely right; it is difficult when we are as small as we are and all based in Washington, DC, with the exception of one person, to make sure that the markets that can use our services know about us.

That is part of the reason we do these Expanding Horizons conferences throughout the country, in cities throughout the country, to advertise our services and those services of our sister agencies.

But also, we find, frankly, we are pretty well known in the emerging markets themselves because most of the other development finance institutions such as ourselves in other countries are quite active there. So we find that we are quite well known outside the United States and in those emerging markets.

Last, the way people often find out about our services—and I suspect the same may be true of the USTDA—is the terrific economic officers in the Foreign Commercial Service and the USAID officers in our embassies are very good at making sure that U.S. companies that are considering the possibility of investing in a given country are aware of the services that we can provide to facilitate that investment.

I just came back Monday from a trip to West Africa, in Liberia and Ghana and Senegal, and the purpose there was to make sure that we were doing everything we could to help U.S. businesses that are interested in investing there. And, again, the embassies are really terrific at identifying and supporting those opportunities.

Senator MCCASKILL. Are there repeat customers?

And, by that, I mean in your loan portfolio, obviously, you have some private participation, and I am assuming that these are investment groups or banks that are coming to you with people that have come to them and they are looking to offload some of the risk, right?

Ms. LITTLEFIELD. That is right. And thank you for asking that question.

We are very proud of the repeat customers that we have because it suggests that they are getting a good service from us. And so repeat customers is an important indicator to me of our performance.

But you rightly mentioned that we do work with a number of, for example, U.S. banks. As part of our attempt to be more and more efficient and streamlined and cut costs, we use the services of other financial institutions to help us originate investment opportunities.

Senator MCCASKILL. What percentage of your investment opportunities in the last two fiscal years were really led by financial institutions coming to you, where they are doing a piece of it and you are doing the lion's share?

Ms. LITTLEFIELD. Off the top of my head, I would say probably—I would say between 5 and 10 percent of our business in a given year has come through a U.S. private sector bank.

But most of our business—well, I would not say most. I would say probably a third of it we are doing in conjunction with other types of lenders, though.

Senator MCCASKILL. Hedge funds?

Ms. LITTLEFIELD. No, other types of lenders, for example, other kinds of development finance institutions.

Senator MCCASKILL. Oh, I see. Like, give me examples.

Ms. LITTLEFIELD. Well, for example, we have negotiated an arrangement with the other development finance institutions such as the IFC of the World Bank, wherein we pre-agree on legal documentation to the extent possible and policy reporting requirements to the extent possible, such that we can share risks among ourselves without burdening the client with multiple reporting and documentation requirements, for example.

Senator MCCASKILL. No, I mean your business. I am trying to get a handle on who is coming in your door.

So you are saying that most of your business is not really generated through financial institutions that have a business that they want to finance, but rather, it is coming in directly with the businesses coming to you because they have made contact with the embassies?

Ms. LITTLEFIELD. Most of the business that we do comes in directly to us; that is correct.

Senator MCCASKILL. OK.

Ms. LITTLEFIELD. There are various, different avenues into us, either direct—they have heard about us. They have heard us speaking at a conference, the embassies' partner or repeat business.

We have actually done this analysis, but I do not have the numbers in front of me as to what the sources of people hearing about us are.

Senator MCCASKILL. So would you agree that based on your mission it is hard to say that you are being successful since such a small percentage of your work is being done in what we would consider really, truly developing countries?

Ms. LITTLEFIELD. Right now, we are actually very proud of the amount of work that we are doing in less developed countries. It has been consistently around 30 percent of our business for the last——

Senator MCCASKILL. How much? Thirteen?

Ms. LITTLEFIELD. Thirty. Three-zero.

Senator MCCASKILL. Three-zero. Now why do I have a figure of six?

Ms. LITTLEFIELD. I do not know where that number is, but I can show you the reports that will indicate that it is more like 30, plus or minus 1 or 2 percent.

Senator MCCASKILL. And that is where the purchasing power is $1,200 or less?

Ms. LITTLEFIELD. We have an internal policy of focusing on countries that have a gross national income (GNI) per capita of $5,000—$15,000.

Senator MCCASKILL. Or less?

Ms. LITTLEFIELD. Or less.

Statutorily, the inflation-adjusted limit from the 1986 number when it was originally established would be $18,000 as a limit, but we have reduced that to $15,000 and really focused on those poorest countries.

I think an indicator of our focus on the poorest countries is that Africa, which used to be around 6 or 7 percent of our total a mere decade or so ago, is now over 25 percent of the total portfolio. So Africa—Sub-Saharan Africa has grown from 4 or 5 percent to a full quarter of our business.

Senator MCCASKILL. OK. So the Foreign Assistance Act, you have internally decided—even though it is a per capita purchasing power in current dollars of $1,200 or less and to restrict OPIC activities in countries where it is over $7,822, you have just internally adjusted those numbers based on inflation?

Ms. LITTLEFIELD. So the Foreign Assistance Act determined in 1986 an upper limit on the countries that we would give preference to. When you take those numbers forward, it comes to around $1,800 in today's dollars.

We have determined that we wanted to focus on poorer countries than that. So, internally, as a guiding policy, we focus on those countries with GNI per capita of $15,000 instead of $18,000.

I cannot reconcile the $12,000 number that you have right now, but I would be happy to do so and do the crosswalk between these numbers later on if that would be helpful.

Senator MCCASKILL. OK. And part of it is your website is slightly confusing because your website says that you have spent—$1 billion out of $16 billion is spent on low-income countries.

Ms. LITTLEFIELD. I do not know why that number would be on our website. It sounds like it is a misunderstanding or misrepresentation in some way.

Senator MCCASKILL. Well, I think it is important because, obviously, what you are trying to do is do what the private markets cannot.

Ms. LITTLEFIELD. That is right.

Senator MCCASKILL. And that is to go into the high risk, lower value in terms of return in order to really, in a way, provide the financing that you could not—I mean, if this is financing that is available in the private market, then it should be in the private market.

Ms. LITTLEFIELD. Absolutely.

Senator MCCASKILL. Was there a special reason that we would be in Israel or Portugal?

I mean, those countries do not strike me as places that it would be difficult to get investment capital under any circumstances—not high risk, certainly not developing, very wealthy countries.

Ms. LITTLEFIELD. So—yes. Now, originally, our statute was written in a way that exempted a few high-income countries for historical reasons, such as Portugal and Northern Ireland. We have not done any financing in those countries since I have been in the office, except for one legacy small transaction that was part of a multiple-country portfolio, I think, in Portugal.

But other than that, as I say, our low-income portfolio has increased dramatically, and our higher-income portfolio has declined.

With respect to Israel, Israel is the one exception to our $15,000 cap, and we—again, that is historical reasons.

But also, when we have done transactions in Israel, it has been with they have other extenuating circumstances such as being in the very high—very low-income, very poor northern parts of Israel, in the Negev, or when it has particular foreign policy considerations to it.

So, yes, we do indeed make exceptions to that voluntary $15,000 cap, but they indeed are exceptions and need to have overriding developmental or foreign policy justifications.

Senator MCCASKILL. And is there someone who approves those exceptions, or is that all done internally?

Ms. LITTLEFIELD. Well, given that the $15,000 cap is an internal policy, there is no official statutory change to our policy by going above it.

The $18,000 cap is a policy that the board would have to approve a change of.

Senator MCCASKILL. OK. So this is just board approval. There is no White House approval. There is no—because this is all supposed to be in support of the President's foreign policy——

Ms. LITTLEFIELD. Yes.

Senator MCCASKILL [continuing]. Development goals.

When you all do one of these exceptions, is it just—as far as it goes, is it either you are making a decision or the board making a decision?

Ms. LITTLEFIELD. Any changes to our policies would go to the board, and certainly, we would be consulting Congress with that as well.

Senator MCCASKILL. OK. On the development goals, I notice that on your checklist for potential funding applicants there is not a single question about development. The questions include whether the project is in a country in which you can do business, whether a U.S. citizen or business has a meaningful involvement in the project, whether the applicant has a successful track record in the industry, but there is nothing about what the project's development impact will be.

And some of the things I mentioned in the opening statement seemed to have a very tenuous connection with development goals, in terms of building energy or infrastructure.

Wendy's, Papa John's——

Ms. LITTLEFIELD. Right.

Senator MCCASKILL [continuing]. A Porsche dealership. I do not see how those support the development goals that are supposed to be one of the policy reasons for your agency's existence.

Ms. LITTLEFIELD. So, yes, thank you for that.

That investor checklist that you have reviewed is really a prescreener to help us weed out the multiple inquiries that we have that do not qualify for even beginning a conversation with us. So it is really a blunt instrument——

Senator MCCASKILL. OK.

Ms. LITTLEFIELD [continuing]. To weed out people that do not have viable projects, frankly.

But the test of whether the development—the project has a development impact is certainly subjective but something that is the No. 1 goal of every one of our investment officers. So we would not be considering a project unless it had a positive development impact.

Some of the projects that you mentioned do, I agree, on the surface look like they are less obviously developmental than a health or education project might be. But I think it is important to recognize that U.S. franchises in these markets create enormous numbers of jobs in markets that may be unstable because of unemployment, for example.

So Marriott in Georgia is an extremely important job producer as well as, a standard bearer and a projection of American values in a country that is of high strategic importance to us and high foreign policy value, that was just emerging from a conflict situation.

So each one of those stories, in and of themselves, one can look at and understand the context—the foreign policy context, the development context or the domestic economic context—in which that project contributes to economic development.

But I can assure that as someone that has spent most of her life in development and several years living in Africa, on these matters, nothing matters to me more than having a positive development impact and doing so while helping U.S. businesses and do so in a sustainable way.

Senator MCCASKILL. I think some of this——

Ms. LITTLEFIELD. So I can assure you I am a good steward of our development credentials.

Senator MCCASKILL. And I do not question that. I do not question your motivation or your commitment to that.

But I guarantee you that $20 million for a Porsche-Jaguar dealership in Ukraine probably makes you squirm a little bit, too. I mean just on its face.

And some of this is—when you sit on this side of the desk, you can engage in all kinds of cheap shots, and I do not mean to be doing that. But, at the same time, some of these do give the impression that—I mean, I know there is plenty of places we can invest $20 million that would have more long-term value to the

Ukraine than somebody who is going to drive a Porsche or a Jaguar.

And so, even those are—you know. I am sure that those franchises would argue with me that that is upward mobility that everyone aspires to, and that has other people look at that, and they want to work harder so they can aspire to have that also. I get that part.

Let me talk a little bit about the oversight issue, and this is probably a little bit of stress here, about this.

I am a big believer, as you probably know, in inspectors general and auditors. I am a big believer in independent government auditors.

Spending as many years as I did as a government auditor, there is a huge difference between an audit that an entity hires to audit their books and an independent auditor coming in from the outside, that does not report to the board, does not report to the CEO but, rather, reports to the public, for public agencies.

OPIC does not have its own inspector general. I know you referenced a relationship with the inspector general.

But I know that you all tried to sit down and reach an agreement on a risk assessment of your programs and up to one performance audit. And, evidently, it is my understanding that you decided not to go that route.

And I want to give you an opportunity to explain why and what would be barriers to your having a more robust relationship with an inspector general who would be making all of the decisions as to what to look at, when and why.

Ms. LITTLEFIELD. Thank you for that question.

Yes, indeed, as I mentioned, we use the services or we are the beneficiary of the services of USAID's inspector general right now. That is part of the legacy of our having——

Senator MCCASKILL. Have they ever done any work there?

Ms. LITTLEFIELD. Yes, they have.

Senator MCCASKILL. So there is an audit they have done?

Ms. LITTLEFIELD. They have done a number of different things. They have looked at two accusations of fraud, I believe, as well as we have engaged them for a Federal Information Security Management Act (FISMA) audit, which they have done now, and they are doing fraud awareness training as well.

That is a legacy of our having been part of the AID in the beginning.

But, as you rightly said, I personally have an interest in strengthening our oversight. I believe, as you mentioned, that if you are doing well it is a good thing. And, frankly, it is an extremely valuable management tool for management.

So we have been engaging with the Congress and in particular with the Senate Foreign Relations Committee to strengthen our oversight mechanisms and to ensure that the skill set of our inspectors general comes with all the skills that we need.

We are neither a pure development agency, like USAID, nor are we a purely financial agency. So we need an inspector that has tailored skills that are appropriate for this agency.

So we have been pursuing the avenue of a designated Federal entity IG, which is similar to 35 other small Federal agencies who are financial in nature, such as the Federal Reserve Board (FRB), the Federal Housing Board, the Securities and Exchange Commission (SEC) and others. So that is the avenue that we have been pursuing now.

And I look forward to really benefiting from this oversight because, frankly, as the CEO and President it would be nice to have the assurances that these inspectors general would be.

So that is the avenue we have been pursuing. It will give a Congress a one-stop shop of an independent entity that they can check in with on all matters related to OPIC and oversight.

Senator MCCASKILL. OK. And I will look forward to getting specifics of what you want.

And, if you are generating the kind of cash for the Treasury that you are, I bet you I can talk folks into making sure some of that is used to get you that oversight.

Ms. LITTLEFIELD. Thank you.

Senator MCCASKILL. It only makes sense, especially for both of you. When you are committing resources far away, there is no way you have the resources.

I mean, I have scars up and down my back from the oversight in Iraq and Afghanistan, where we were spending billions of dollars and too often had nobody on the ground paying attention as to how those were being spent.

Now you have a little more ability, although with you, Ms. Zak, probably not as much because it is grants as opposed to loans and risk management.

But let's talk a little bit about failure. What happens when you have a failure?

For you, Ms. Zak, how successful have you been at recovering the money that has been expended when it has been determined that the project was failing?

And, for you, Ms. Littlefield, how is the loss divided between the private sector and the money that you have guaranteed, that you have loaned? Is it pro rata, or is the loss to the private sector first, or is the loss to the government first?

I will start with you, Ms. Zak.

Ms. ZAK. Thank you very much, Madam Chairman.

And I would just like to also address one thing that you just mentioned with respect to following our grant funding.

As you mentioned earlier, with respect to our grant funding, we do require that U.S. businesses participate and perform the duties under the grants, and as a result, payments are made directly here in the United States to those U.S. businesses.

So we have significant oversight with respect to our grantees overseeing a project as well as USTDA's program staff overseeing a project as well as our Office of Grants Management.

So, with respect to our grant activities, they benefit the host country, but because we want to level the playing field for U.S. businesses, the work is being performed by U.S. companies and the money never leaves the United States.

With respect to recovery, one of the things we like to ensure is that we do not have a loss. So we have significant processes put in place with respect to every single performance milestone in a grant, where there is review by the program staff with respect to that particular performance and all the way through the process to the end. When a project is complete, our Office of Grants Management reviews the whole project.

However, as you indicated, there are times that when we get to the very end we may have an issue that arises. It is rare. But people are very much in tune to that, and we do a couple of things.

One of the things we do is we often get outside auditors to come in and review the project to determine how much money is to be owed to us, and we then provide for demand letters from our agency. However, if we are unable to collect from USTDA, we have referred U.S. companies to the Department of Justice (DOJ) to be able—and the Treasury—to collect on our behalf.

Senator MCCASKILL. And they have been successful?

Ms. ZAK. They have been successful.

Senator MCCASKILL. OK. I am curious; if the money never leaves the United States, are you saying because they use their money over there?

Aren't these projects being done in other countries?

Ms. ZAK. They are being done in other countries.

Senator MCCASKILL. But how——

Ms. ZAK. They are being done by U.S. contractors or U.S. businesses, often small businesses that are going abroad to look at the specifications.

So these grants are often early project planning to be able to develop procurements or specifications, and we want to ensure that they are to the level that levels the playing field and that U.S. goods and services could be used.

So the actual activities are being performed, the feasibility studies are being written, by U.S. companies. They are being overseen by the host country because we think that is extremely important for their development, to oversee their projects.

At each milestone, the grantee signs off on the invoice. The contractor—U.S. contractor—certifies to the invoice. It then comes to USTDA to be reviewed for proper payment.

Senator MCCASKILL. OK. I have lot of experience with money being paid to American companies to be used in foreign countries where it did not go well. So the picture you are painting is remarkable, that it is so seamless, without a problem.

Do you have people on the ground in these countries that are looking at these projects—feet on the ground?

Ms. ZAK. We have a couple different ways that we look at these projects on the ground.

One is the fact that our program staff does travel to those countries.

We also work very closely with the U.S. embassies and the Commercial Service to oversee these projects.

We also, as a matter of fact, have a series of audits that we perform annually—that we bring in, again, independent companies to audit those projects, to be able to review them.

So it is a process of embassies, our staff, independent auditors, to be able to look over and track the projects.

Senator MCCASKILL. Does every project get an independent auditor hired?

Ms. ZAK. Not, not every single project.

Senator MCCASKILL. What is the criterion to when you hire an independent auditor and when you do not?

Ms. ZAK. Annually, our Office of Grants Management goes out to the staff of the agency to request whether or not there are any anomalies, anything they are concerned about. That is the beginning of a process.

We also go through a process by which we look at what the risks are with respect to each project. It could be including things like what country they are in, have they done work with us before, have there been any concerns with lags with respect to their invoices. And then, as a result of those indicators, projects sort of rise to the top.

They are then presented to an audit working group that reviews them. And as a result, outside auditors, which are usually small businesses, are hired, and those outside auditors will look at those specific projects.

Senator MCCASKILL. Are you hiring these outside auditors in-country, or are you hiring people like KPMG and folks like that?

Ms. ZAK. We are hiring U.S. businesses—often, they are smaller than KPMG—to do these particular audits, but they travel in-country to be able to look at what is going on.

Senator MCCASKILL. And how many countries do you have these projects in?

Ms. ZAK. We currently have streamlined our processes to where we have 18 priority countries.

Senator MCCASKILL. Eighteen countries.

And what—so how frequently—and how many people do you have working at this agency?

Ms. ZAK. We have 50 full-time equivalents (FTEs).

Senator MCCASKILL. You have 50 people, and you have 18 countries. And how many projects a year?

Ms. ZAK. We have approximately—about 100 projects a year.

Senator MCCASKILL. So everybody—so how much travel—is your travel budget extensive?

Ms. ZAK. It is not extensive.

And, as matter of fact, one of the things that the agency did is that, even before other people, they have tried to economize with respect to their travel. And, when they may be allowed to do things like travel business class because of the length of time, our agency, beginning in 2009, volunteered to cut down and to go coach so that they can do more trips.

So, with respect to our program staff, they travel at least quarterly to their countries, and our evaluation staff also travel to the countries.

Senator MCCASKILL. Do the auditors travel?

Ms. ZAK. And the auditors travel on a separate audit budget, but the auditors travel——

Senator MCCASKILL. Are they going coach?

Ms. ZAK. They probably are going under the Federal rules, which they are not.

Senator MCCASKILL. I bet they are.

And what about failure in your agency, Ms. Littlefield?

Ms. LITTLEFIELD. So, thank you.

You asked two questions. One is about the capital structure and who loses first and second, and about failure. But since you are asking failure now, I will address that first.

For me, there are two kinds of failure. One is failure to achieve the development impact that we are aiming for, and two—and related to that, of course—is failure to perform financially.

With respect to failure to perform financially, we do find that particularly the smaller businesses sometimes struggle and need a lot of hand-holding. So our nonperforming loans can look significant—say, 6, 7, 8 percent of our portfolio.

But, at the end of the day, we find that hard work with those clients enables them to finally end up pulling themselves together and performing, which results in our write-off rate, as I mentioned earlier, of less than 1 percent net of recoveries.

So, with respect to failure, we hope to have some failure. If we are not failing sometimes, we are not taking enough risk. But I do find it continually remarkable how rare that is that we do have an actual write-off, particularly considering the places that we are working.

The biggest effort I have put into marketing and working in the last year or so has been in Afghanistan, in Haiti, in South Sudan, Pakistan and elsewhere.

With respect to failure to achieve a development impact—because, of course, you can perform financially but not have a development impact—we are putting in place and have upgraded our development monitoring system, and we do have development analysts that travel to visit each of the projects and determine what impact their having. And we are going to try to do that over a much longer period of time once we have some money to invest in that long-term evaluation.

With respect to whether the private sector and OPIC share, pro rata or in some other way, any losses, normally the project structure that we would work in would have the private sector investing in the equity in a project, which is generally the 25 percent sort of first base loss, and then we would be the financing on top of that.

So, in order for us to actually lose money, the private sector partner would have to lose all of their money first. And then we would kick into, of course, the other mechanisms for getting paid back, whether it is collateral or personal guarantees or other means of getting repaid.

But, yes, the bottom line is the private sector partners have a lot of skin in the game, and they lose before we do.

Senator MCCASKILL. And that is huge, and that is probably saving you a lot of money because they are going to do so much due diligence because their skin is going to hurt first. That is obviously the right way, and I appreciate that is the way you are doing it.

In preparing for this hearing, it is very difficult to figure out where the Federal Government is spending money on trade and development. It takes work, a lot of work, to figure it out.

Your websites are good sources of information on projects, but neither of you are on ForeignAssistance.gov although I understand it is due to USAID having trouble uploading the information.

You have this chart,[1] which is not big, but I had my staff do this. And what this is, is you read across. This is OPIC, TDA, Export-Import, SBA, USAID, US Trade Group, Commercial Service in Commerce, Manufacturing and Service in Commerce, Market Access and Compliance in Commerce, then Commodity Credit in USDA, Foreign Market Development in USDA, Market Access Program in USDA, Emerging Markets Program and Export Credit Guaranty Program. OK?

So that is the full deck.

And then you go down as to what the responsibilities are. And you see the Xs all over this thing?

I mean, it is a mess.

Now I talk to any individual, whether I am—I mean, both of you are, obviously, highly competent and qualified and working hard and trying to do the right thing.

And I talk to any of the agencies on this, and it is, oh, man, we have it covered. Do not touch us. This is good.

But this has to be confusing for businesses.

And it is hard to get the information in a way that people who sit in these chairs can really assess effectiveness and whether or not—I mean, honestly, Ms. Littlefield, I think that there—I have had an awful lot of interaction with USAID. I would vote for giving you a lot more of their money. I mean billions more of their money, in a heartbeat.

But most members will never even know who you are or what you do because it is so fragmented and it is so niche-oriented that we are losing, I think, a lot of the punch and power of our development dollars.

What do you think you all can do to up the transparency and up the coordination in a way that might bring more effectiveness to this overall goal that both of you have?

You can go first.

Ms. LITTLEFIELD. I can maybe just start with that.

We have actually developed, along with Ex-Im Bank and USAID, some simple marketing materials that show on one piece of paper roughly what services you get from whom, and we found that can be very helpful in explaining to companies where they need to go for their specialized services.

We have also articulated in—I do not know how many fora we have been sitting next to each other on a panel, describing very much as you did, or Senator Johnson did, at the outset, how USTDA's, for example, feasibility studies among other things can give rise to an OPIC investment which then, of course, creates a magnet for exports in the future that can be financed through Ex-Im Bank. So that sort of stylized diagram, if you will, of how we relay to one another I think is helpful to people.

I also think some of the websites that have been launched, and particularly concentrated with Business USA and Export.gov from Commerce, will help, once they are fully up and running, create a one-stop shop that does triage for businesses coming in, to understand which agency they can go to for that specialized expertise that they are looking for.

[1] The chart referenced by Senator McCaskill appears in the Appendix on page 51.

We find it looks complicated when you look at it on a spreadsheet, but frankly, the ecosystem of U.S. business is quite complex as well. So I think that is worth bearing in mind—that it is a complicated world out there.

Senator MCCASKILL. OK.

Ms. ZAK. May I also add to that?

I think—as Elizabeth had pointed out, I think it is true that there are some websites, such as Business USA, Export.gov that we do provide the information to and that does describe the agencies and what they do.

I think a very important thing, though, that has happened is that the agencies are working extremely closely together. Matter of fact, some of the agencies, regularly meet. The heads of the agencies regularly meet to make sure that our activities are streamlined, make sure we know what is going on with respect to the other agencies. So we work very closely together.

As was mentioned, with respect to the public, I do think that one of the things that has been very valuable is that OPIC, Ex-Im Bank, Commerce Department, State Department have both traveled within the United States and abroad as Team USA. I think that is extremely important—that we are able to work together, to show what we can do and how we can work together.

But I also think that at all levels of the agencies they have been communicating extremely well, and I think it is important for us through the websites to continue to communicate to the public.

Senator MCCASKILL. And do you feel you have the same communication even all the way into USDA?

Ms. ZAK. As a matter of fact, we work with USDA, but we also work with the Department of Energy (DOE).

Because of the amount of aviation work we do, we also work very closely with the Federal Aviation Administration (FAA). And, as a matter of fact, Administrator Huerta was just at one of our workshops.

So, as a matter of fact, USTDA is a convener and works very closely with many agencies, and so that is one of the things we have had to do—is to leverage the other agencies. And we work with a broad spectrum.

Senator MCCASKILL. How many other agencies—Federal agencies—are doing feasibility studies in foreign countries?

Ms. ZAK. I am not aware of any agencies. I know that occasionally USAID may do feasibility studies that are not focused necessarily on exports, the way that we do, but I am not aware of anyone that focuses on feasibility studies that are specifically focused on exports, which is our mission.

Senator MCCASKILL. OK. So the Foreign Commercial Service Bureau within the Commerce Department or the International Trade Administration is not doing feasibility studies?

Ms. ZAK. Not to my knowledge.

Senator MCCASKILL. OK. Well, we think they are. So we will double-check and let you know.

Ms. ZAK. Thank you.

Senator MCCASKILL. If they are, then that is obviously a problem——

Ms. ZAK. I would like to know about it.

Senator MCCASKILL [continuing]. That you do not know it.

And I assume that you would say the difference between OPIC and Ex-Im Bank is that you are focused on development goals and they are not? [Pause.]

Because they do political risk insurance. They do investments abroad. They serve as a lender and insurer of last resort.

You read their goals, and they are very similar to yours except with the development piece.

Ms. LITTLEFIELD. The instruments sound similar, but I would say certainly they do not have a development mission, and we do not have a primary export generation mission either.

So, as I have often explained it to our clients abroad, we are financing flows of U.S. capital for development purposes into emerging markets, and Ex-Im Bank is financing flows out of those emerging markets to acquire U.S. goods and services.

Senator MCCASKILL. Well, what if we—just think about this for a minute. OK? Like do not immediately say, no.

What if we combined your agency with Export-Import and added development goals to their mission?

Ms. LITTLEFIELD. That is certainly something that has been discussed, and I know the President has proposed this, of course. And I think, as we have said, he has every right to organize I believe his executive team the way he sees fit.

And I have no doubt that however any reorganization happened it would be done in a way that enabled us to preserve our development mission, but I feel it is also important to do it in such a way that Ex-Im Bank preserves its export promotion mission, too.

And sometimes it can be challenging to have mission misalignment within one large entity.

Senator MCCASKILL. But other than what you see as maybe some natural tension between exports and development goals, is there any other really compelling reason that you would see that they could not be combined?

Ms. LITTLEFIELD. I have not looked into it in any great detail, but I have every faith that the President and the White House will do it well if they decide to so.

Senator MCCASKILL. Well, unfortunately, for the President, it is not up to him. This is one of those deals that he needs Congress to help. And he would tell you, I am sure if he were here, that has been challenging, at a minimum, to get Congress to go along.

Let's talk a little bit about TDA's outside financial auditors. I know that they report to your deputy financial officer and to the chief operation officer (COO).

And your general counsel is serving as your inspector general now; is that correct?

Ms. ZAK. As you indicated, we do not have an inspector general. As a result, our general counsel is a coordinator. If there are any activities, they can be brought to our general counsel. If there is a need to go to another agency with respect to—as we referred to DOJ in the past, then she is able to provide that information to others as well.

With respect to the outside auditors, the auditors do report to our chief financial officer, but as a matter of fact, the senior management team meets with our auditors to ensure that we review all of the information that the auditors have provided.

Senator MCCASKILL. OK. But I am assuming that neither one of you would have a problem if we could figure out a way to give you special—I mean your own designated inspectors general to provide that independent, third-party, outside look at risk assessment—most importantly, risk assessment—and then going in and doing a deep dive in whatever areas they determined were risk-worthy.

I am assuming you would be OK with that. You would not have a problem with having an IG.

Ms. LITTLEFIELD. As I mentioned earlier——

Senator MCCASKILL. Right.

Ms. LITTLEFIELD [continuing]. That is the avenue that we are pursuing with the Senate Foreign Relations Committee. I think it is the solution that makes the most sense for a small agency and one that enables us to ensure that we have the relevant skills embodied in that IG.

Senator MCCASKILL. We have IGs in agencies, frankly, that are much smaller than yours and have much less connection with finances than yours.

I mean, there are some tiny agencies with IGs and that do not have the financial impact that yours have.

Are you OK with an IG?

Ms. ZAK. With respect to the attorney general, we have—or inspector general, rather. We have spoken with both our appropriators as well as our authorizers that are aware of our size, the nature of the work that we do and the oversight that we have.

And, with respect to the size, one of—the thinking is to be able to have access and to continue with our audits as we have performed them in the past.

But, basically, the issue has been sort of the size and nature of the work.

Senator MCCASKILL. Right. OK. Is there anything that I have not asked a question about that you wished I would have?

Ms. LITTLEFIELD. I, personally, cannot think of one. I think you have been very thorough.

And we appreciate the time and attention you and your staff have spent to understanding—I speak for Lee as well, I think—our two small but vital agencies, both of which I believe are punching well above their weight.

Senator MCCASKILL. I think that both of you are.

And this is one of those areas—and I will be honest with you. When you are in this line of work—and I have a sense that neither one of you are in your jobs because you are looking for big money. I think both of you probably have the kind of resumes that you could make much more money in other jobs.

One of the things that is really hard right now is the cynicism that is out there about government and that government does not do anything right and that government just pretty much sucks and that government is the enemy and government is the problem.

And, with more oversight, I think both of your agencies would get more exposure to the work you are doing. I think both of you are working very hard to make your agencies appropriately risk-free and productive.

And there are two sides to oversight. One is that you figure out when bad things are going on, and you get them fixed. The other is you highlight agencies that are doing things right.

My sense is that overall if you all had more aggressive third-party oversight you would do very well, and that is good for all of us—to have every once in a while some parts of government that are doing what they should be doing.

We are going to continue to pursue, to the extent we can, on consolidation of programs where it makes sense. There is, I think, some value to making this a little less complicated to someone who is not intimately involved in foreign development and foreign investment.

It is complicated. And I know you all talk to each other, but coming in from the outside as I did to this, I kind of went, wow, this is a labyrinth.

To you, it seems simple because it is who you work with every day and it is your areas of expertise, but I think to most businesses it is much more complicated.

And I am going to continue to work on that and will look forward to getting your input on it.

Generally, the problem with consolidation has nothing to do with the agencies. It has to do with committee chairs that do not want to give up their jurisdiction. That is a problem that would be my responsibility to try to deal with.

Yes?

Ms. ZAK. I just wanted to respond to your question of what is a question that I wished you would have asked, and that is, what do you need?

And I think one of the things that we do need is for people to support the President's budget. I think both for OPIC and for USTDA because I do think—and I really appreciate your focusing on agencies that are effective. And I think we are effective, and with the President's budget, we can be even more effective.

Senator MCCASKILL. Well, we actually got a budget deal last night, and it was not the President's budget, but it was a lot closer than many of us thought we would get. So there is a little glimmer of hope at the end of the tunnel that we are going to be doing the shutdown dance again and that we will begin to maybe get back to some regular order and begin authorizing and appropriating the way the rules are designed.

So I really appreciate your time today.

We will have some followup questions for you. Particularly, I want to get to the bottom of what percentage of your work is actually in developing countries and what is the criteria and how is that being decided and what does it relate to, to the original authorization and how that was determined.

We are going to want to take a little bit deeper dive around that and clear up some of the confusion that seems to exist about how much of your body of work is actually being done in developing countries.

Ms. LITTLEFIELD. Yes, I would welcome that. Thank you.

Senator MCCASKILL. OK. Thank you both.

[Whereupon, at 3:20 p.m., the Subcommittee was adjourned.]

APPENDIX

Statement of Elizabeth L. Littlefield
President and CEO
Overseas Private Investment Corporation

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
December 11, 2013

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.

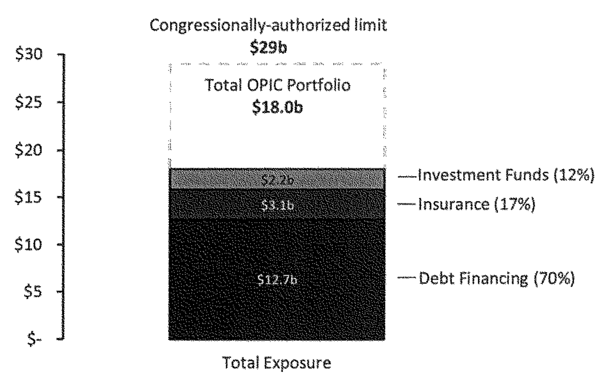
- It works exclusively with the private sector.
- Its professional staff comes largely from private-sector backgrounds -- principally individuals with developing country banking, insurance, and project finance experience.
- It is fully self-sustaining, returning a profit to the federal government each 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:

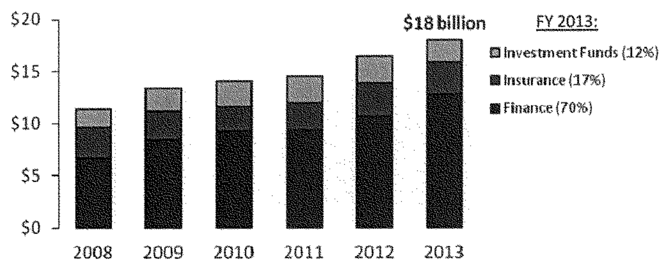
OPIC portfolio. Overall, OPIC has an $18 billion portfolio of loans, guarantees, and insurance. This is well below our Congressionally-authorized limit of $29 billion. OPIC's portfolio growth depends critically on the number of its transaction teams. With more resources, OPIC could generate more transactions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

Chart 1: OPIC Portfolio



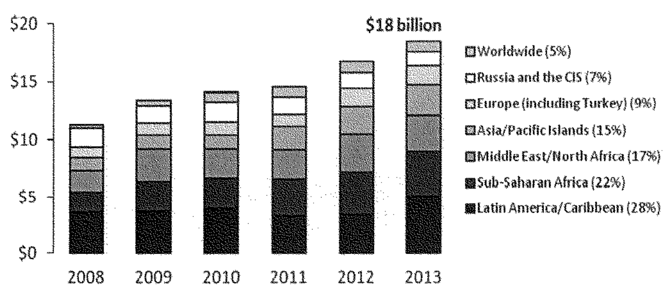
OPIC's activities are diversified by product line, region of the world, and business sector.

Chart 2: OPIC Portfolio by Product Line



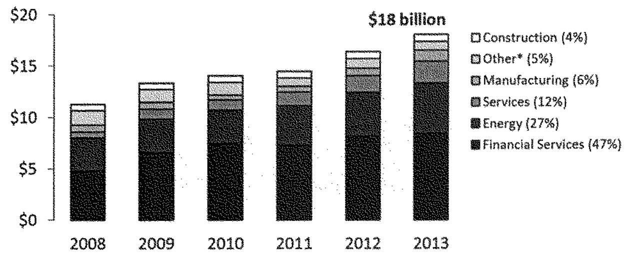
Growth of 10% in FY 2013 after landmark growth rate for FY 2012.

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.

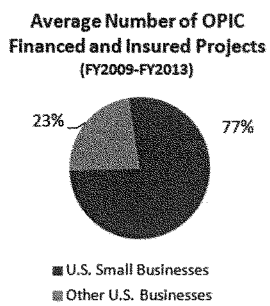
OPIC's product innovations. A key observation about OPIC's products is that OPIC basically invented two of them. In the 1970's there was no such thing as political risk insurance. OPIC brought it into the market and then broadened its reach in the 1980's. Because of OPIC's catalytic role, a private market 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.

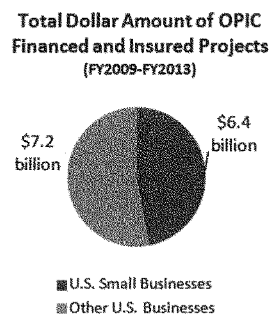
OPIC also largely pioneered the emerging markets private equity (PE) sector. In the 1980's, OPIC began encouraging private equity (PE) funds to come into the poorer countries where OPIC operates and created a specialized investment funds department to manage this activity. In the beginning, OPIC had 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.

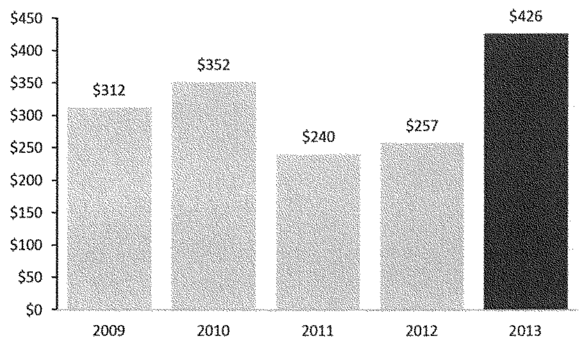
This is not just a commitment to helping U.S. small businesses gain footholds in emerging markets, as important as that goal is. It is also a process of showing small businesses *how* to do it, so they can keep on doing it, with or without future OPIC assistance.

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.

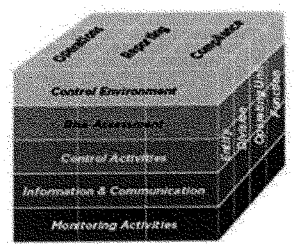
Evidence of the rigor of OPIC's transaction selection and structuring, internal controls, and risk management practices can be seen in some basic statistics about OPIC's performance:

- <u>The agency's net write offs have been less than 1% of outstandings for each of the last 5 years</u>.
- 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.

Statement by Leocadia I. Zak

Director, U.S. Trade and Development Agency

Before the Committee on Homeland Security and Governmental Affairs

Subcommittee on Financial and Contracting Oversight

December 11, 2013

2:00 p.m.

Chairman McCaskill, Ranking Member Johnson and Members of the Subcommittee, thank you for the opportunity to testify about the U.S. Trade and Development Agency's mission, operations, economic impact and oversight mechanisms. USTDA's dual mandate uniquely positions our Agency to create jobs here at home, while promoting sustainable infrastructure in emerging markets around the world. We welcome the Subcommittee's interest in USTDA's work to level the playing field for U.S. companies overseas, and we look forward to describing the procedures by which the Agency ensures its continuing efficiency and effectiveness.

USTDA was created to "promote United States private sector participation in development projects in developing and middle-income countries, with special emphasis on economic sectors with significant United States export potential."[1] USTDA is unique among federal agencies in that it has been mandated by Congress to engage the U.S. private sector in development projects at the critical early stages when technology options and project requirements are being defined.[2] By highlighting opportunities for the use of U.S. expertise and technology when they can effectively be incorporated into project planning, the Agency increases opportunities for the use of U.S. exports in project implementation.

USTDA is a streamlined, nimble agency that takes rapid and targeted action to create meaningful project-building partnerships when the need and opportunity for them are greatest. As explained by the Center for Strategic and International Studies (CSIS) in its 2011 report, *USTDA: Good Value for Development Dollars*, the Agency often acts as a bridge for countries that are transitioning from traditional aid-based relationships with the United States to mutually beneficial trade partnerships.[3] As such, USTDA has the authority to provide grant funding for projects that may ultimately be financed by any number of entities, including the Export-Import Bank of the United States (Ex-Im), the Overseas Private Investment Corporation (OPIC), multilateral development banks and, where resources exist, the foreign governments that will

[1] 22 U.S.C. § 2421(a).
[2] 22 U.S.C. § 2421(b)(2).
[3] Daniel F. Runde and Lauren Bieniek, *USTDA: Good Value for Development Dollars*, Center for Strategic and International Studies, October 21, 2011, available at: https://csis.org/publication/ustda-good-value-development-dollars, last accessed December 2013.

ultimately implement the projects themselves. As an early project planning, grant-making agency, there is no U.S. private or public sector equivalent to USTDA. As noted by CSIS, USTDA has the "unique ability to leverage its assets in a multitude of ways: to strengthen the domestic economy, continue international development priorities, and serve diplomatic interests in emerging markets around the world."[4]

USTDA's Mission and History

USTDA's dual Congressional mandate is unique among federal agencies in requiring that the Agency both (a) provide foreign assistance for trade and economic development and (b) help to put Americans to work in the jobs that result from exports. In the Agency's history of linking U.S. businesses to export opportunities, USTDA has generated over $45.8 billion in U.S. exports[5] and has emerged as the leading U.S. government agency for early project development and planning activities in emerging economies.

The Agency accomplishes its mission by providing grants to overseas sponsors for priority infrastructure projects in their countries. The funding may be used to perform a feasibility study, provide technical assistance or launch a pilot project. USTDA also connects project developers with U.S. businesses through its reverse trade missions, which are specially tailored to bring foreign decision-makers to the United States to observe the design, manufacture and operation of U.S. products and services in order to inform their procurement decisions.

These activities have produced results for both U.S. industry and USTDA's partners in emerging markets: U.S. companies are provided access to the lead infrastructure project developers around the world, while foreign partners gain insight into the latest, most appropriate U.S. technologies to meet their development needs. USTDA focuses its program on sectors where U.S. firms are globally competitive, such as energy, transportation and telecommunications. As a result, the Agency is able to provide targeted foreign assistance, support U.S. trade and economic development priorities, and promote U.S. job creation.

USTDA's predecessor organization was originally established at the U.S. Agency for International Development (USAID) in the 1970s to provide foreign countries access to U.S. development advice, technical assistance, equipment and technology. Thereafter, Congress recognized that the organization's targeted mission was lost to USAID's broader one and steadily increased its independence through successive actions, culminating in USTDA's creation as an independent agency in the Jobs through Exports Act of 1992.[6] When it created USTDA, Congress described its predecessor as "one of the most successful government export

[4] Ibid.
[5] This historic cumulative export total includes data collected by the Agency's predecessor organization, prior to USTDA's formation as an independent agency in 1992.
[6] P.L. 102-549, Title II, § 201, 106 Stat. 3655.

promotion programs," increased its budget authorization and highlighted the increased need for its services.[7]

USTDA's Economic Impact

Consistent with its mission, USTDA's primary strategic goal is to create U.S. jobs by increasing exports of U.S. goods and services for projects that promote sustainable development and economic growth in its partner countries. In FY 2013 alone, the Agency identified $2.95 billion of new exports generated from USTDA-funded activities, which has helped support approximately 14,000 jobs in the United States.[8] These results are consistent with the Agency's track record of generating over $2 billion in exports each fiscal year, which is a tremendous return on investment given the Agency's annual appropriation of approximately $50 million per fiscal year.

The Agency's programs provide opportunities for all levels of U.S. businesses through grants and contracts. USTDA supports efforts by companies of any size to enter or expand into emerging markets through its grants to foreign project sponsors, and has broadened its outreach efforts to increase the involvement of small- and medium-sized enterprises in Agency-funded activities. The Agency particularly relies on small businesses, as defined by the Small Business Administration (SBA), drawing extensively on the expertise of consulting and engineering firms to provide independent technical and financial analysis during the critical early stages of a project's definition. In fact, in FY 2013, 64% of the Agency's direct contracts were awarded to small businesses – surpassing the SBA's goal for federal agencies to award at least 23% of their procurements to small businesses.[9]

Under its foreign grant program, USTDA creates opportunities for small businesses to succeed by showcasing their technical expertise in the global marketplace. For example, USTDA helped Roeslein & Associates, Inc. (St. Louis, MO) take advantage of a business opportunity to produce aluminum cans in Nigeria. When Roeslein first learned of the business opportunity, they were not willing to pursue it because of the perceived risk. However, its team brought the project to USTDA, who agreed to share the cost of a feasibility study with the company. The results of the study were positive and, consequently, project financing was arranged for Roeslein with the help

[7] House Report No. 102-551, reprinted in [1992] U.S. Code Cong. and Ad. News at 3255, 3263. Congress underscored USTDA's independence and special character when it explained that it expected that "the increase in [USTDA's] authorization will discourage attempts by other agencies and departments within the executive branch to duplicate [USTDA's] work." *Id.* at 3264.
[8] Martin Johnson and Chris Rasmussen, *Jobs Supported by Exports 2012: An Update*, Office of Competition and Economic Analysis, International Trade Administration, Department of Commerce, February 26, 2013, available at http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_004021.pdf, last accessed December 2013.
[9] U.S. Small Business Administration, *Strategic Plan Fiscal Years 2011–2016*, http://www.sba.gov/sites/default/files/serv_strategic_plan_2010-2016.pdf, last accessed December 2013.

of a guarantee from Ex-Im. The project resulted in the export of approximately $30 million in U.S.-manufactured goods and services. Since the USTDA-funded feasibility study, Roeslein has gone on to build three more canning facilities in Africa, two in Nigeria and one in Angola. Roeslein sources steel from numerous states and purchases components from up to 10 states to build their can-making facilities before they are shipped overseas.

USTDA's Collaborative Partnerships

USTDA is distinct among the U.S. government's foreign assistance agencies because, as required by its mandate, it partners with the U.S. private sector at the very early stages of project development to jointly craft solutions to developmental challenges around the world. In the course of providing these solutions, USTDA collaborates with a wide variety of U.S. government agencies and multilateral institutions in a manner that ensures success. USTDA has been recognized by its key government partners, including the Office of the U.S. Trade Representative and the Departments of State and Transportation, among others, for the flexibility of its program, the range of tools at its disposal and the speed with which it can deploy results-oriented assistance.

USTDA is well-positioned to mobilize the resources of multiple financing organizations, including Ex-Im, OPIC, multilateral development banks like the International Finance Corporation, and commercial banks. Beyond that, however, the Agency can uniquely leverage financing from foreign governments in developing and middle-income countries. These public sector entities are able to commit their own resources – or the resources of their infrastructure banks – to develop power, transportation and communications projects.

For example, USTDA supported a technical assistance program to help the government of Romania plan its next generation network (NGN) infrastructure for emergency management. At the time the assistance was requested, Romania's telecommunications infrastructure was limited in its functionality, bandwidth capacity, geographical reach and transmission/storage security. Romania's goal of establishing an NGN infrastructure for emergency management would address these shortcomings via a comprehensive system upgrade. The Romanian government has financed substantial implementation of its NGN network, which has generated almost $39 million in U.S. exports of equipment and technology.

USTDA's Operations and Services

The Agency's effectiveness is demonstrated by the fact that its programs are now generating more U.S. exports per program dollar than at any other time in the Agency's history: $73 of exports for every dollar programmed, up from $41 just four years ago. The Agency's success is a result of its rigorous evidence-based decision-making processes. USTDA evaluates its program tools on a continuous basis to determine their overall effectiveness and responsiveness to U.S. industry, U.S. government policy priorities and emerging market needs.

Program Evaluations

USTDA's Program Evaluations Office monitors project development once USTDA-funded activities are completed to document the linkage between the activities and the project outcomes. The Program Evaluations Office measures the U.S. content, defined in terms of the U.S.-manufactured goods or services of commercial sales when projects are implemented. USTDA then uses the data to calculate its *export multiplier*, the dollar amount of exports generated per USTDA program dollar obligated, as well as its *total cumulative exports*, the amount of exports associated with USTDA funding in any given time period.

During its annual strategic planning, USTDA combines its evaluations data with additional comparative factors – including Gross Domestic Product (GDP) per capita, World Bank income rankings, total population, the International Monetary Fund's GDP growth projections, total U.S. exports, and the top five industry sectors for exports for each country – in order to prioritize countries and sectors for Agency funding. This strategic planning process, which engages the full participation of the Agency's staff, has helped foster a results-oriented culture at USTDA. This is evidenced by the fact that USTDA was ranked the top small/independent agency performer in the category of "Results-Oriented Performance Culture" in the Office of Personnel Management's 2013 Federal Employee Viewpoint Survey results.[10]

USTDA has continued to refine its strategy to ensure that it is dedicating its resources effectively. For example, USTDA decreased its number of priority countries from 26 to 18 between FYs 2011 and 2013. Based upon its most recent evaluation, USTDA is again targeting 18 key markets in FY 2014. Notably, while the total number of countries remains unchanged, the composition of the list does not. USTDA has adjusted its priority country list to match the interests and expertise of U.S. industry, replacing markets where its program was not producing the anticipated results with countries that offer significant growth opportunities in key infrastructure sectors, as appropriate.

[10] U.S. Office of Personnel Management, *2013 Federal Employee Viewpoint Survey Results: Employees Influencing Change*, available at: http://www.fedview.opm.gov/2013FILES/2013_Governmentwide_Management_Report.pdf, last accessed December 2013.

Project Preparation and Approval

The Agency's senior managers,[11] including the Director, also employ evaluation information when they review funding requests for specific activities. Each program funding request, which must include an analysis of potential export sales, is evaluated in light of financing options, foreign competition and past Agency results in a particular country or sector. USTDA funding is prioritized for those projects for which the Agency's historical performance data suggests the strongest potential for success. Approval from a senior manager is required for every obligation of program funds, regardless of the dollar amount.

USTDA evaluates projects based on the following criteria: (a) developmental priority in the host country, (b) likelihood of success receiving implementation financing and (c) mutual benefit for the United States and partner country, including U.S. export potential.

USTDA develops early project planning activities by (a) working with a host-country partner (potential grantee) or (b) working directly with a U.S. company that is pursuing a business opportunity in a USTDA-eligible country. These projects are developed, reviewed and recommended to senior management for funding (typically by grant to the foreign grantee) by USTDA's program staff.

- USTDA program staff identifies early project planning activities through meetings with U.S. industry and travel to priority markets.
- USTDA program staff recommends that funds be obligated to contract with a technical expert for a Desk Study/Definitional Mission to review the proposed project's scope of work and corresponding budget.
- Once a project has been reviewed by the technical expert, USTDA undertakes an extensive due diligence review of the proposed grantee, as further described below.
- If the project meets USTDA's funding criteria and the proposed parties clear due diligence review, the program staff provides an action memorandum requesting approval from senior management to enter into a grant agreement with the proposed grantee.

Due Diligence

In order to ensure that USTDA complies with legislative and executive branch restrictions and that its funds support the work and projects of reputable, solvent entities and individuals, the Agency conducts due diligence on all its program activities before its funds are put to use. Using a variety of private and public databases, U.S. government, internal and external sources, USTDA thoroughly yet expeditiously vets its prospective foreign grantees and delegates, as well

[11] The Agency's senior managers include the Director, Deputy Director, General Counsel, Chief of Staff, Director of Policy and Program, and Director of Congressional and Public Affairs.

as the U.S. firms and subcontractors that are proposed to perform USTDA-funded work. Specifically, USTDA conducts due diligence on both private and public prospective foreign grantees, foreign entities and individuals that may participate in its reverse trade missions, and U.S. contractors and their subcontractors including, as applicable, the entities' parent corporations, principal officers, directors and shareholders.

Transparency

Due to the nature of USTDA's work, the Agency is committed to increasing transparency and ensuring that accurate, relevant information about its activities is available to and easily accessible by the public. USTDA's website, for instance, contains a virtual library where any person can search for and request reports on USTDA's grant-funded feasibility studies and technical assistance projects. USTDA also gathers a wealth of valuable business data, such as data on market conditions in particular countries and sectors, in the normal course of its project development efforts. Because this information could be of significant use to U.S. companies looking to expand their businesses in overseas markets, USTDA is currently in the process of making more of it publicly available on its website.

USTDA's Oversight Mechanisms

Effective oversight, which is crucial to USTDA's success, is accomplished through a robust system of internal and external controls designed to prevent waste, fraud and abuse, as well as to maximize the value of every U.S. taxpayer dollar the Agency spends. Beyond its evidence-based decision-making processes, USTDA closely monitors the use of both its program and operating funds, and engages independent third-party companies to audit its financial statements, as well as its programs and processes. Since 1993, the first full year USTDA was operational as an independent agency, the Agency has received only unqualified audit opinions. Furthermore, because USTDA uses the Interior Business Center (IBC) of the U.S. Department of Interior as its paying agent, there is a check on every payment made by the Agency, as described below.

Internal Processes

After senior managers approve funding decisions and funds are obligated, various internal processes are in place to ensure the funds are put to proper use. The majority of USTDA's program budget is used to provide grant funding to foreign project sponsors for early planning infrastructure project activities in developing and middle-income countries; the average amount of these grants in FY 2013 was $558,355. Regardless of the amount of a particular grant, USTDA monitors the activity closely throughout – and after – the project's duration. At the outset, payment schedules are based on the completion of project milestones rather than time periods; all invoices, which are reviewed and approved by program staff, must contain specified certifications regarding the work performed. USTDA's Office of Grants Administration reviews final invoices and work products before they are transmitted to the Agency's Finance Department. Once the Finance Department authorizes payment of a particular invoice, it forwards the invoice to IBC. For each invoice, IBC reviews the relevant grant agreement and contract to validate that payment from the U.S. Treasury is proper. After all of the foregoing steps have been successfully completed, IBC disburses USTDA's grant funds directly to the U.S. contractor in the United States; thus, USTDA funds never leave the United States.

USTDA contract actions, which averaged less than $191,000 per program-related acquisition and less than $23,000 per operations acquisition in FY 2013, are also subject to rigorous internal and external controls. Contract invoices are reviewed and approved at multiple levels, including by a Contracting Officer's Representative, before they are transmitted to the Agency's Finance Department. After reviewing and authorizing the payment, the Finance Department transmits the invoice to IBC for verification of relevant information and validation that payment from the U.S. Treasury is proper, prior to the disbursement of funds.

USTDA has received assurance of the operating effectiveness of IBC's accounting operations through an unqualified audit opinion of IBC's independent public accounting firm.

In addition to the processes described above, USTDA's Finance Department reviews every transaction processed by the Agency in the course of its annual reporting, under the Improper Payments Elimination and Recovery Act (IPERA). To date, the Agency has not found any significant improper payments as defined by IPERA. In order to enhance its policies and procedures for the prevention and detection of improper payments, the Agency has entered into an agreement with IBC to utilize the Do Not Pay Business Center to check all invoices prior to payment.

External Audits

In compliance with the Office of Management and Budget's Circular A-136, USTDA contracts with an independent auditor annually to review and provide an opinion on the Agency's financial statements. In FY 2013, the Agency's independent auditor, KPMG, LLP, expressed an unqualified opinion of USTDA's financial statements – marking the 21st year in a row that the Agency has received an unqualified opinion.

USTDA selects a number of grant activities each year for post-award audits by independent companies based on recommendations from its Audit Working Group. Led by the Office of Grants Administration, the Working Group uses an objective tool based on a variety of standardized factors to assess which grant activities present the highest risk and recommend them for program and/or financial audit. The Working Group also solicits recommendations for audit activities from the Agency's program staff. Depending on the results of a particular audit, further action may be taken by the Agency, such as a demand for a refund of amounts owed to it. In rare circumstances, USTDA may refer the matter to the U.S. Department of Treasury or the U.S. Department of Justice.

USTDA frequently audits its own programs and processes, contracting with third-party companies to review them. For example, in FY 2013, USTDA contracted with an independent CPA firm to review the use of USTDA's funds in four of its International Business Partnership Program activities, which directly connect U.S. industry representatives with leading decision-makers from emerging economies. Specifically, the auditor was tasked with evaluating whether USTDA funds were used in accordance with the terms of the contract, whether its invoice review procedures were consistent with generally accepted accounting principles and whether the reimbursable rates were appropriate and consistent with market rates for the tasks outlined in the underlying contract's Statement of Work. In each case, the auditor found funds were used according to the terms of the contract, the invoice process was compliant, and reimbursable rates were appropriate and consistent with market rates. The audit also found that there was a need for USTDA to better ensure evaluations feedback from all participants in the Agency-funded activities under review.

USTDA has also utilized an independent, third-party audit of its evaluation processes since the Agency's inception. In FY 2013, the Agency strengthened that process by adding a second third-party company to separately and independently review USTDA's evaluation methodology and data on an annual basis, and to recommend ways in which the methodology might be improved.

USTDA's Efficiency and Effectiveness

USTDA's goal of maximizing the value of every taxpayer dollar it spends also drives its ongoing efforts to be more efficient, improve its customer service and reduce unnecessary costs. In FY 2013, USTDA deployed a new Project Management Database System to standardize the management of current open obligations across the Agency. USTDA also developed a project timeline, which will permit it to track every step in an activity's life cycle, identify bottlenecks and implement changes to increase efficiency. Both of these efforts, which were implemented in-house and at minimal cost, will improve the Agency's ability to meet the needs of its customers.

USTDA has long streamlined its functions through arrangements with Shared Service Providers (SSPs) to take advantage of their specialized technical expertise while reducing the Agency's budgetary and staffing costs and minimizing redundancies across the federal government. USTDA currently has agreements with IBC for human resources management, staffing and personnel matters, financial statements and payroll processing, as well as for travel authorization and voucher processing. These agreements have allowed the Agency to tap into IBC's knowledge base to improve efficiency in a variety of ways.

For instance, by fully adopting IBC's processing of staffing requests, USTDA has eliminated the need for time-consuming internal ranking panels – thereby filling vacant positions more quickly, which eliminates highly inefficient staffing gap periods. Additionally, USTDA had historically maintained its Oracle Federal Financials on a stand-alone server hosted by IBC. Through a migration plan developed between USTDA and IBC, the Oracle server was migrated to a shared platform, thereby reducing annual expenditures by almost 50 percent ($1.1 million in FY 2010 as compared to $548,040 in FY 2013). The one-time $536,000 migration cost in FY 2010 was recouped in FY 2011 and FY 2012, allowing for the realization of significant cost savings for the Agency and the U.S. government.

USTDA's savings through shared services have helped the Agency streamline its operating expenses down to the lowest levels that still allow for the responsible management of its program. USTDA's operating expenses have remained flat since FY 2010.

Conclusion

USTDA's unique and targeted focus on engaging the U.S. private sector in early project planning for development projects places it at the forefront of an innovative, sustainable foreign assistance model. The Agency moves quickly to build mutually beneficial partnerships between the U.S. private sector and overseas project sponsors at a critical point in project planning. Throughout its history, USTDA has made impressive use of a relatively small budget – the Agency's current export multiplier of $73 in exports for every $1 programmed, the highest in USTDA history, speaks for itself. USTDA's success is attributable to rigorous, evidence-based decision-making, efficiency through streamlining and shared services, and effective oversight mechanisms that are appropriate for the Agency's size and programs. In a time when results are more important than ever, USTDA is producing its best results. The Agency is committed to remaining an agile, responsive organization that supports U.S. jobs through exports while simultaneously providing important early project planning assistance to developing and middle-income countries, helping them to develop the needed infrastructure for trade.

	OPIC (net)	TDA	Ex-Im (net)	SBA	USAID	US Trade Rep.	Commerce (International Trade Admin.)			USDA (Foreign Agricultural Service)				
							Commercial Service	Manfacturing and Services	Market Access and Compliance	Commodity Credit Corp.	Foreign Market Develop. Prog.	Market Access Program	Emerging Markets Prog.	Export Credit Guarantee Program
2013 Budget (millions)	*-$204*	*$50*	*$754*	*$1,754*	*$1,528*	*$50*	*$461.4 (entire ITA)*			*$172.3 (entire FAS)*				
Formulate U.S. trade policy						X		X						
Participate in trade negotiations						X		X						
Financing for investments abroad	X		X							X				X
Political risk insurance	X		X											
Feasibility studies and training		X											X	
Partial loan guarantees			X	X										
Trade market research								X	X					
Export market development (including research & promotional activity)						X	X	X			X	X	X	
Export credit insurance			X											
Export assistance and counseling				X			X				X	X	X	
Support at major U.S. and Overseas trade shows							X							
Partial loan guaranties			X		X					X				X
Trade missions and business workshops							X	X					X	
Reverse trade missions and business workshops		X												
Enhanced financing for purchases of U.S. goods and services			X											

U.S. Overseas Private Investment Corporation

Follow-up Fact Sheet to December 11, 2013 Testimony

SUB-SARAHA AFRICA PORTFOLIO GROWTH: FY 2002 - FY 2012 (page 35)

Geographic Regions	**September 30, 2002**	**September 30, 2012**	**% Change**
Sub-Saharan Africa	$822	$3,743	+356%
North Africa/Middle East	$524	$3,285	+527%
Caribbean/Central America	$929	$1,901	+105%
Europe (Including Turkey)	$1,522	$1,601	+5%
South America	$4,761	$1,491	-69%
Russia and the CIS[1]	$1,260	$1,374	+9%
South Asia[2]	$841	$1,275	+52%
East Asia/Pacific Islands (including Regional Funds)[3]	$1,633	$1,129	-31%
Worldwide Funds	$712	$966	+36%
MCL Limit Adjustment(s)[4]	$0	-$364	
Total	**$13,004**	**$16,401**	**+26%**

Dollar values in millions

OPIC PORTFOLIO PERFORMANCE (page 51)

Portfolio Date	**Loans Past Due more than 90 days**	**Write-offs (net of recoveries)** as % of avg outstandings
FYE 2012	4.1%	0.269%
FYE 2013	2.3%	0.808%

[1] Central Asia (Kyrgyzstan) is included in Russia and the CIS.
[2] South Asia includes: Afghanistan, Bangladesh, India, Nepal, Pakistan and Sri Lanka.
[3] East Asia/Pacific Islands includes: Cambodia, China, East Timor, Fuji, Indonesia, Malaysia, Mongolia, Papua New Guinea, Philippines, South Korea, Thailand, Vietnam and the Regional Funds.
[4] Adjustment represents the maximum insurance exposure amount as measured by MCL, in excess of an aggregate cumulative claims compensation.

Post-Hearing Questions for the Record
Submitted to the Honorable Elizabeth Littlefield
From Senator Claire McCaskill

"Streamlining and Strengthening Oversight of Overseas Trade and Development Agencies"
December 11, 2013

1. On page 6 of its annual report, OPIC states that it has $1 billion in total commitments in low income countries and that its total portfolio is $16.4 billion.[1]

   To clarify, the $1 billion figure refers solely to OPIC's *FY12* commitments in the lowest income countries. By contrast, the $16.4 billion figure refers to OPIC's *entire* portfolio, as it has built up over many years. To determine the percent of OPIC's FY12 commitments that went to the lowest-income countries, the $1 billion figure would need to be compared to the total *FY 12* commitments, which were $3.6 billion. That is equivalent to 28%, (not the 6% cited by the Subcommittee).

   For OPIC's portfolio as a whole (the $16.4 billion figure), the corresponding percentage of commitments in the lowest-income countries is 23%.

   In accounting terms, this is the distinction between "stock" (the entire portfolio) and "flow" (a single year's transactions). We understand that this distinction between multi-year stock and single-year flow may not have been made explicit in the 2012 Annual Report infographic referenced in this question. We will make the distinction more explicit in future reports.

   Q. How does OPIC define "Low Income"?

   OPIC's definition of low income countries comes from the Foreign Assistance Act, which states that OPIC "shall...give preferential consideration to investment projects in less developed countries that have per capita incomes of $984 or less in 1986 United States dollars, and restrict its activities ... [in countries with] per capita incomes of $4,269 or more in 1986 United States dollars..."[2] The table below illustrates how OPIC defines country income groupings based on this language. The "FY 2014 GNI Per Capita Thresholds" column gives the gross national income (GNI) per capita ranges OPIC is currently using to determine a country's income grouping, and the "FY 2012 GNI Per Capita Thresholds" column gives the GNI per capita ranges OPIC used in FY 2012. These ranges are adjusted from the 1986 USD ranges using the U.S. GNP implicit price deflator from the Bureau of Economic Analysis.[3]

[1] OPIC 2012 Annual Report (online at http://www.opic.gov/sites/default/files/files/OPIC_2012_Final.pdf) (Sept. 2012).
[2] 22 USC 231 (2)
[3] OPIC uses the latest figures available at the start of a fiscal year to determine country income groupings for that fiscal year. For example, for FY 2014, OPIC derived the threshold figures using the U.S. GNP implicit price deflator for 2012 from the August 2013 issue of the Bureau of Economic Analysis's Survey of Current Business and obtained the most recent GNI per capita data, corresponding to 2012, primarily from the World Bank's World Development Indicators. (Some data were obtained from the United Nations' unstats.un.org.)

Income Grouping	GNI Per Capita Thresholds in 1986 USD	FY 2012 GNI Per Capita Thresholds	FY 2014 GNI Per Capita Thresholds
Lowest	$984 or less	$1,525 or less	$1,803 or less
Middle	$985 - $4,268	$1,526 - $6,616	$1,804 - $7,821
High	$4,269 or more	$6,617 or more	$7,822 or more

In addition to the efforts OPIC makes to work in lowest income countries, OPIC takes into account a variety of other factors as it develops new business, reviews potential projects, and evaluates the composition of its portfolio. These considerations derive from a mixture of statute and policy and include:

- Development impact.
- U.S. development assistance and foreign policy priorities.
- Prudent financial management and overall portfolio diversification.
- Host country capacity.
- Demand on the part of, and support for, U.S. businesses and investors, and challenges U.S. business face in obtaining private financing.
- OPIC budgetary resources, particularly staff time.

Some of these considerations align more consistently with OPIC's preference for projects in lowest income countries than others.

- For example, OPIC's statute also requires the agency to be financially self-sufficient, meaning that there must be reasonable assurance of repayment for its financing. These strong repayment prospects can be found among borrowers in any country, but tend to be more common in the "middle" and "higher" income countries.
- Also, since the majority of the world's poorest people live in so-called "middle" income countries[4], projects in these countries may serve people who are just as poor, and have a development impact that is just as high, as projects in the lowest income countries.

  A project example: In FY 2012, OPIC committed $25 million to CHF International, which in turn extended a guaranty to Ameen S.A.L. to provide working and expansion

[4] Sumner, A. (2012). *Where Will the World's Poor Live? An Update on Global Poverty and the New Bottom Billion.* Washington, DC: Center for Global Development.

capital to micro-borrowers in rural Lebanon. While Lebanon is classified as a "high income" country, this project will have a high development impact by targeting poorer borrowers in rural areas of the country as well as women owned enterprises. OPIC's ability to support projects like this increases its capability to achieve high development impact and benefit poor populations around the world through private sector investment.

- It is also worth bearing in mind that some proposed projects in the lowest-income countries may not actually yield strong development benefits. Extractive industries projects occasionally fall into this category.
- OPIC operates statutorily under the guidance of the U.S. Secretary of State, and is frequently tasked by the Secretary and by Congress with supporting developing countries that are U.S. foreign policy priorities. For example, Afghanistan, where OPIC is quite active, is a U.S. foreign policy priority country. It is also classified as one of the lowest income countries. But Egypt, Georgia, Jordan and Iraq – other high foreign-policy priority countries where OPIC is active – are classified as "middle income" countries.
- Another factor is that OPIC is a demand-driven institution. It responds to what the private sector brings to it – un-met private-sector financing and insurance needs in OPIC-eligible countries that would have positive development impacts. The private-sector investors proposing these transactions typically take into account whether the legal and regulatory environments in the target countries will sufficiently support the long-term risks that would be entailed. Again, some of the lowest-income countries do provide these reassurances to investors. But the overall investment climate is often friendlier in the "middle" and "high" income countries.

All that said, OPIC does prefer to back projects in the lowest-income countries wherever and whenever it can.

2. In a December 10, 2013 email to the Subcommittee, OPIC staff stated that:

> OPIC's statute states that "OPIC shall...give preferential consideration to investment projects in less developed countries with per capita incomes of $984 or less in 1986 United States dollars, and to restrict its activities [in countries with] per capita incomes of $4,269 or more in 1986 United States dollars." With an inflation adjustment using the U.S. GNP implicit price deflator available from the Bureau of Economic Analysis, those levels are equivalent to $1,803 and $7,822, respectively, in FY14. As a result, OPIC restricts its activities in the wealthier OPIC-eligible countries, and those countries with GNI/capita of greater than $15,000 are generally not eligible for new projects. Most importantly, the market also tells us when we are no longer needed; OPIC doesn't generally get requests to help US businesses invest in the wealthier economies.

However, from the list of 2012 OPIC projects available on OPIC's website[5], only 0.2% of 2012 projects were in countries with per capita incomes less than $1,803 and 33% of OPIC's 2012 projects were in countries above the $7,822 threshold. This was calculated using the World Bank's GNI per capita index[6].

Q. Please confirm the accuracy of this information. If OPIC disputes any part of this, please provide detailed explanations for any disputed information.

In our answer to Question 1, we provide additional explanations, aggregated data, and further perspective relevant to OPIC's support for projects in lowest income countries.

Here, in Question 2, we are unable to ascertain how the 0.2% figure was calculated. Thus we cannot confirm the accuracy of the Subcommittee's statements. Therefore, OPIC would respectfully request to further discuss with the Subcommittee staff the methodology used to generate this statistic.

We would like to be sure we are comparing the relevant figures and data. As noted in our response to Question 1, there is a potential for confusion between multi-year stock and single-year flow metrics, particularly if the two are directly compared.

There are also databases in different parts of OPIC's website pertaining to 2012 projects. The list of projects shown in the "Current OPIC Projects" tab under "OPIC in Action," for example, changes over time as projects are added or dropped, whereas the "All Project Descriptions" tab under "OPIC in Action" is a comprehensive historical index, providing brief descriptions of projects that have been approved in the past 8 years, even if they are no longer active.

Note also that the GNIPC threshold figures cited in Question 2 are those OPIC uses to categorize country income grouping for projects committed in FY 2014, not those for FY 2012. Because the statute provides nominal thresholds, the threshold is revised annually (see our response to Question 1).[7]

The commitments listed under "Investment Activities 2012" and the information provided under "Investment Fund Portfolio Activities 2012" in OPIC's 2012 Annual Report offer a more precise picture of OPIC's active new commitments and projects in FY 2012. It does not appear that these figures were used in the Question 2 calculations.

3. In 2013, OPIC approved a loan guarantee of up to $18.9 million to finance the establishment and operation of a chain of up to 22 Wendy's restaurants in the country of Georgia.[8] In 2012, OPIC approved a loan of up to $20 million to expand a Ukrainian company's automobile

[5] Current OPIC Projects (online at http://www.opic.gov/opic-action/current-opic-projects) (accessed December 18, 2013).

[6] The World Bank, *GNI per capita* (online at http://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD) (accessed December 18, 2013).

[7] The Tanzania and India projects alone from either of these tabs comprise more than 0.2 percent of the number of 2012 projects listed in either tab, which suggests we may be misunderstanding either the data set or the methodology behind this question.

[8] Schulz Global Investments website, Offices (online at http://schulzeglobal.com/offices/) (accessed Dec. 6, 2013).

business, including construction of two new, state-of-the-art dealership facilities for Porsche and Land Rover/Jaguar automobiles and to repay the outstanding balance of an existing OPIC loan.[9]

Q. Please provide detailed information on how each of these expenditures advances a U.S. development goal.

Republic of Georgia

Since the 2008 invasion by Russia, the Republic of Georgia has sought improved ties, including economic ties, with the United States. U.S. support for Georgia, which has achieved one of the strongest records of democratic governance, market liberalization, and human rights protection in the region, has been a foreign policy priority.

But, as with many emerging markets, investors often are unable to assemble project financing without outside support, such as that provided by OPIC. Thus a large Georgian company, JSC WenGeorgia, sought OPIC's support for the construction of 22 Wendy's restaurants.

Particularly with the hands-on guidance that is being provided by the U.S. franchisor, Wendy's International, the project has the potential to greatly enhance food retailing management, skills, technology, and training in a small developing country like Georgia. This skills transfer includes management practices specific to restaurants, such as best-practice food sanitation procedures, as well as knowledge transfer applicable to other economic sectors, such as supply-chain management and cold-chain management.

OPIC's analysis of the projected economic and developmental impacts of the project noted the following factors:

Jobs

- *Job Creation*: Approximately 1,375 permanent jobs will be created by the fifth year of the project, 35 of which will be managerial and 110 of which will be professional and technical.

Human Capacity and Demonstration Effects

- *Training*: Some workers, especially at the managerial level, will receive training in the U.S. The parent franchisor, Wendy's International, has agreed to provide extensive training to the new franchisees in supply chain management, cold chain management, accounting, food safety, facility maintenance, cost management, marketing, and sales.

[9] Overseas Private Investment Corporation Public Document Summary – LLC Winner Imports Ukraine, LTD (online at http://www.opic.gov/sites/default/files/files/072612-llcwinterimports.pdf) (accessed Dec. 6, 2013).

Wendy's International will provide on-site assistance and supervision during pre-opening and opening periods, will give advice in implementing Western-style business processes, and will facilitate in establishing the cost-effective cold chains and supply chains.

- *Employee Benefits*: The project company will provide the following employee benefits beyond those required by local law: educational assistance, free daily meals, and performance-based bonuses.

- *Gender Impact*: The project company will provide the following benefits specifically for women: maternity leave and free child care.

- *New Product, Technique, Technology or Management Practice*: The project will increase the prevalence of Western standards for food retailing businesses in the host country.

<u>Host Country Economic Impact</u>

- *Local Procurement*: An estimated 84% of initial project funds will be used for local procurement. In addition, the project will procure an estimated $26,766,000 per year in operational procurement on an ongoing basis.

- *Fiscal Impact*: The government of Georgia will receive an estimated $7,293,000 annually from VAT, property, employment and corporate income taxes related to the project.

<u>Social and Environmental Impact</u>

- *Social Benefits*: The project sponsor, JSC WenGeorgia, is involved in numerous social and community development activities, such as: acquiring houses for orphaned children and supporting local artists and sports teams.

- *Environmental Preservation*: The restaurants will feature energy saving lighting systems and recycling bins and advanced waste-disposal systems.

<u>U.S. Effects</u>

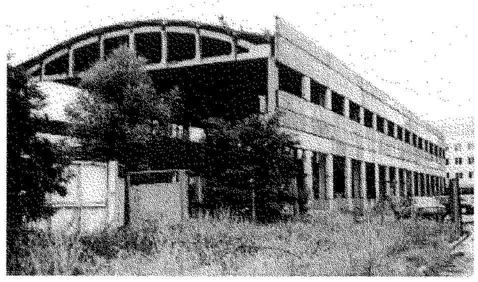
- *Procurement and Employment Effects*: Initial U.S. goods procurement is projected to be approximately $5,417,000. This procurement will generate about 23 person-years of direct and 22 person-years of indirect employment. Operational U.S. procurement is expected to equal $68,715,000 after five years and will generate 236 person-years of direct and 195 person-years of indirect employment. The project is not expected to result in the displacement of any U.S. production. Thus, the project is expected to support a total of 476 person-years of U.S.-based work over the first five years of operations, which is equal to approximately 95 U.S. jobs.

Based on these factors, as well as the protection of U.S. taxpayer dollars due to the creditworthiness of the project, OPIC approved the transaction.

Ukraine

OPIC first entered Ukraine to help the country develop a market-based economy after the fall of the Berlin Wall and the collapse of the Soviet Union. At that time, in the 1990's, a U.S. citizen from a Ukrainian family, John Hynansky, who had been an auto dealer in Delaware, sought OPIC's assistance. (Then and until 2008, Ukraine was classified among the lowest-income countries.)

Mr. Hynansky had identified a burned-out and abandoned shell of a factory (see below) that he proposed to transform into Ukraine's first full-service foreign car dealerships.



Original site for the Winner Ford-Volvo dealership in Kiev

OPIC worked with the entrepreneur to develop the financing, but before construction could begin in 1998, the Russian economic crisis weakened the Ukrainian economy. The entrepreneur persisted, however, and with an economic revival in 2001, the project resumed. Opening in 2006 as Winner Automotive, Ukraine's first Ford and Volvo automobile and parts dealership, the project met its OPIC development impact projections:

- It rapidly created 79 new jobs, 60 of them professional and technical and 19 managerial.
- It provided all workers with on-site as well as international training for globally-competitive levels of brand management, supply chain management, and sales training. These knowledge, skills, and technology transfers resulted in a Western-style business management and sales structure for the company.
- As required by OPIC, Winner met internationally-recognized labor standards under ILO Convention 111, and observes Ukrainian employment, gender, and harassment laws.
- In 2006, the lowest paid Winner workers (cleaning personnel and car lot attendants) received the Winner minimum wage of $250 USD a month, which far exceeded the Ukrainian minimum wage at that time of $70 USD a month. Approximately 45% of the mechanics earned between $500 and $700 USD and 30% of mechanics earned between $750 and $1000 USD per month.

- Each employee is eligible for benefits including 24 days of annual leave, paid sick leave, and maternity leave. Mechanics are provided with uniforms and daily dry cleaning.
- The Winner brands regularly organize training programs in Ukraine and elsewhere in Europe for the mechanics to keep abreast of new technologies. Winner Ukraine also provides additional training programs for the sales departments and for the parts and service employees. Staff is reimbursed for relevant administrative or language courses.
- Winner also set an important example of transparency and legality in the sale of higher-value imported goods. All Winner cars are imported properly and legally into Ukraine. This is important to the development of Ukraine since illegal importation of higher-value equipment has been a source of graft and black market activities in many emerging markets. Winner Ukraine is one of only four companies in Ukraine that has earned the authority to have customs control officers on its premises to clear the paperwork for the importation of its goods.
- Winner also set an example of a modern, Western working environment with a gym and cafeteria offering subsidized meals, a monthly newsletter about the company for employees, and in-kind donations to local charities, including an orphanage and a pediatric hospital.

Winner President John Hynansky subsequently received a prestigious international community service award from Ford Motor Company.

The Winner Ford-Volvo dealership in Kiev today

The demonstration and catalytic effect of the dealership has been vividly proven. The once-remote street where Winner pioneered a Western-style car dealership has become Kiev's car dealership street, now called "Autocity", with an array of other cars, trucks and vehicles on offer. This cluster has deepened the country's pool of high-level managerial, sales, and technical automotive skills.

Thus when Winner Automotive approached OPIC for financing of new, state-of-the-art automotive facilities in Ukraine, OPIC was interested. The company came to OPIC as a "lender of last resort" because, despite developing a sound plan for business expansion, Winner was unable to access sufficient capital due to the global recession and the euro crisis that began in 2008.

Here are some of the development factors that OPIC's own analysis developed, weighed, and projected for the second project.

- *Human capacity building*: 105 new jobs projected, 12 of them managerial and 76 professional and technical, with the majority of jobholders receiving formal managerial and technical training. Jobs include well trained sales force personnel, mechanics (intensively trained by the car brands to fix today's very complex vehicles), accountants, communications and advertising specialists, IT specialists, service personnel, warehouse managers, and customer relations specialists.

- *Associated private sector development*: 71% of initial project funds will be used for local procurement, with about US$10 million in goods and services procured annually from local suppliers.

- *Macroeconomic effects*: the project is expected to generate US$1,726,800 in duties and taxes to the Ukrainian Government.

- *Technology and knowledge transfer*: as with the prior Winner Automotive project, this one will implement strong governance standards, brand management skills, accounting standards, and a Western-style service culture.

- *Equal Employment Opportunity policies*: The project will abide by the employment policy requirements stipulated in the OPIC Loan Agreement and ILO Standard 111.

- *Gender impact*: The project will provide child care and maternity leave for employees and will enforce all non-discrimination and anti-harassment laws.

- *Employee benefits*: the project will provide employees with Western-style (and demonstration effect) benefits, such as health care coverage, transportation assistance, educational assistance and performance bonuses.

- *Community involvement*: the Winner company will continue its strong (and prize-winning and demonstration effect) support for Ukrainian charities and educational institutions, including its recent emphasis on disadvantaged Ukrainian youths.

On the basis of OPIC's economic and policy analysis, as well as the company's proven track record of delivering development benefits, OPIC approved the loan.

Winner has already exceeded most of OPIC's targets. Most notably, perhaps, the company which started from scratch as a small business less than 10 years ago, now employs more than 500 Ukrainians, most of them in technical and professional jobs.

All of Winner's dealer activities continue to be undertaken in accordance with the international brand standards that Winner represents, and are carefully enforced by the company in order to maintain its highly prized distribution rights.

4. OPIC is investing $10 million to co-finance loans to small- and medium sized businesses in Mongolia, but the U.S. nexus, according to OPIC's public information summary, is a "U.S. citizen and owner of a majority interest of Schulze Global Investments Limited, a British Virgin Islands limited liability company."[10]

   Q. Please provide detailed information on the U.S. nexus for this project.

   In this instance, the project sponsor is a U.S. citizen holding a majority interest in the investment.

5. Please describe OPIC's pre-award process.

   This question seems to refer to regular agency grants. OPIC is fundamentally a lending and insuring agency, not a grant-making agency. Only very rarely, in cooperation with, and using funds transferred by, other agencies like the Department of State and USAID, does OPIC make a grant or include another agency's grant in an OPIC financing agreement. Between FY 2008 and FY 2013, during which OPIC transacted $17.4 billion worth of business, no OPIC funds were disbursed as grants. But when these exceptional cases may occur in the future, the small grants will be technically part of an aligned capital financing package that is used to buttress the overall financing agreement, such as by covering the costs of necessary legal or engineering preparation for the financing. In effect, OPIC and the other agencies are pre-paying costs that are more than offset by interest and fees on the subsequent financing. Since these situations are rare and occur only in connection with larger financing packages, there is no meaningful way to discuss "OPIC's" "pre-award process".

6. GAO and the Inspectors General have identified grant closeout as a major challenge for federal agencies. As you know, closeout procedures are intended to ensure that grants recipients have complied with financial requirements and returned unused funds. GAO has identified millions of dollars in expired grant accounts across the government.

   Q. Please provide the average length of time that it takes OPIC to close out a grant.

   Not applicable. Please see answer to Question 5.

   Q. Please identify how much your agency currently has in undisbursed funding in expired grant accounts.

   None. Please see answer to Question 5.

7. Are OPIC's domestic project sponsors subject to the Single Audit Act?

[10] Overseas Private Investment Corporation Public Document Summary – Schulze Global Mongolia Deb Facility (online at http://www.opic.gov/sites/default/files/files/schulze-info-summary-2013.pdf) (accessed Dec. 6, 2013).

Pursuant to OPIC's Direct Loan and Guaranty agreement, OPIC borrowers must submit annual independently audited financial statements, as well as quarterly statements, as a part of OPIC's loan monitoring. The significant majority of OPIC "domestic project sponsors" are not subject to Single Audit Act because OPIC's loan and guaranty portfolio is predominantly with for-profit, private sector entities. The Single Audit Act applies to state and local governments, and nonprofit organizations. The Act also applies to certain federal agencies under 5 USC 551(1), but this does not include OPIC. In a few instances, OPIC has financed nonprofit organizations that have received grants or other assistance from other federal agencies, such as USAID, in addition to the OPIC loan. Such a sponsor would then be subject to Single Audit Act by virtue of its nonprofit status and / or support it received from the agency covered by the Act.

8. Please provide a breakdown of where OPIC's domestic project sponsors are sourced. For example, what percentage of OPIC's domestic project sponsors are referred to OPIC from U.S. embassies?

OPIC sources its project sponsors and investors widely. For example, OPIC has been conducting a nationwide series of workshops, called "Expanding Horizons," since 2006. More than 2,600 U.S. businesses have participated in these day-long workshops in 21 U.S. cities. OPIC also operates a network of over 120 transaction originators and business advisors, called the Enterprise Development Network. EDN participants have been trained on OPIC products and application procedures and can facilitate OPIC financing and insurance for clients.

OPIC also regularly helps train U.S. Foreign Service and Commercial Service Officers, as well as State Department Economic Officers, who are posted to the countries where OPIC operates. These individuals can and do refer potential clients to OPIC. Since OPIC staff members frequently visit U.S. Embassies around the world as part of their due diligence process for proposed transactions and in connection with contract negotiations, OPIC often receives new business leads from Embassy personnel. We would estimate this Embassy "channel" at 15% of OPIC's transactions.

OPIC is frequently a featured presenter at events put on by its network of partner organizations across the country, and appears regularly at international business events sponsored by Members of Congress in their states and Districts.

In a number of cases, OPIC clients become repeat customers, bringing the agency new transactions as they complete older ones.

Other development finance institutions, such as the World Bank and the European Bank for Reconstruction and Development, also send transactions OPIC's way, when they feel OPIC would be a better fit, or when they would like to partner with OPIC on the transaction.

Looking ahead, OPIC is one of the five founding agencies (along with TDA) of the new "Global Business Solutions" and "Specialized Global Solutions" platforms now being rolled out for U.S. banks under the leadership of Ex-Im Bank and the Office of International Trade of the U.S. Small Business Administration.

U.S. Trade and Development Agency
Response to
Post-Hearing Questions for the Record
Submitted to the Honorable Leocadia Zak
From Senator Claire McCaskill

"Streamlining and Strengthening Oversight of Overseas Trade and Development Agencies"
December 11, 2013

1. *Are TDA's foreign grant recipients required to conduct financial and performance audits of their operations?*

   See below.

2. *Are TDA's eventual U.S. grant recipients required to conduct financial and performance audits of their operations?*

   USTDA provides grants to foreign grantees for feasibility studies and technical assistance that are performed by U.S. firms. Therefore, there are no foreign grantee "operations" that could meaningfully or usefully be audited. While USTDA does not audit the "operations" of foreign grantees, the Agency conducts extensive due diligence, prior to funding any activity, on each prospective grantee to ensure it is a reputable, solvent entity with the capacity to successfully implement the development project. As an example, USTDA recently provided a grant to assist Vietnam in developing a roadmap to integrate new wind generation into its electrical grid. Like all USTDA grant agreements, the grantee—in this case, the Electricity Regulatory Authority of Vietnam—is required to enter into a fixed-price contract, funded by USTDA grant funds, with a U.S. firm for the performance of the work, and further provides that USTDA will pay the U.S. firm directly on the grantee's behalf. Accordingly, USTDA's grant funds are never disbursed to its grant recipients. Rather, the grantees receive the services funded by the grants, and the U.S. firms receive payment for their work directly from USTDA. In this example, the Electricity Regulatory Authority of Vietnam will receive a Final Report containing the U.S. firm's recommendations for future infrastructure and design priorities. It is USTDA's goal that Vietnam will subsequently adopt some or all of the Final Report's recommendations, and procure U.S. goods and services in implementing them.

   USTDA does not have any U.S. grant recipients. U.S. firms always perform the services required under the Agency's grant program, as described in the above example. As Director Zak explained in her testimony, USTDA does select a number of grant activities each year for post-award audits by independent companies based on recommendations from its Audit Working Group. Led by the Office of Grants Administration, the Working Group uses an objective tool based on a variety of standardized factors to assess which grant activities present the highest risk and recommend them for program and/or financial audit. The Working Group also solicits recommendations for audit activities from the Agency's program staff. Depending on the results of a particular audit, the Agency may take further action, such as a demand for a refund of amounts owed to it. USTDA issues its demand to the U.S. firm responsible for the work, not to its grant recipients. In rare circumstances, USTDA may refer a matter to the U.S. Department of Treasury or the U.S. Department of Justice.

3. *Does TDA contribute financially to the reverse trade missions that it organizes?*

   Yes, as the organizer of reverse trade missions (RTMs), USTDA contributes to the visits, typically covering the costs of travel, lodging, meals, logistics and interpretation services. However, U.S. firms often sponsor portions of the RTMs, which can include the transportation and/or meals associated with a particular site visit.

4. *What percentage of the reverse trade "market", so to speak, does TDA occupy as opposed to other organizations, private or public, that organize reverse trade missions?*

   USTDA is not aware of a public or private program analogous to its RTM program. The Agency plays a unique role in connecting foreign buyers and project developers with U.S. businesses by bringing these foreign delegates to the United States to observe the design, manufacture and operations of U.S. goods, services and technologies in order to inform their procurement decisions. By funding RTMs, USTDA provides U.S. industry access to foreign delegates, oftentimes at the critical stage before a procurement decision is made, to demonstrate how industry-leading U.S. technology options can address the infrastructure development needs of the foreign officials.

5. *How does TDA measure the success and value of a reverse trade mission?*

   USTDA monitors developments once RTMs are completed to document the linkage between the activities and their outcomes. Specifically, the Program Evaluations Office measures the U.S. content, defined in terms of the U.S.-manufactured goods or services of commercial sales when follow-on projects are implemented. USTDA then uses the data to calculate its *export multiplier*, the dollar amount of exports generated per USTDA program dollar obligated, as well as its *total cumulative exports*, the amount of exports associated with USTDA funding in any given time period. This analysis is done on RTMs, as well as all other USTDA-funded activities, in order to measure the results of USTDA's program and determine the Agency's effectiveness in achieving its mission.

6. *GAO and the Inspectors General have identified grant closeout as a major challenge for federal agencies. As you know, closeout procedures are intended to ensure that grants recipients have complied with financial requirements and returned unused funds. GAO has identified millions of dollars in expired grant accounts across the government.*

   Q. Please identify how much your agency currently has in undisbursed funding in expired grant accounts.

   As the term is used by GAO, "grant closeout" is the process by which agencies redirect funds in expired grant accounts (accounts more than three months past the grant end date that have been inactive for nine months or more) to other projects or return the funds to the Department of the Treasury (Treasury). Due to USTDA's internal controls and authority to de-obligate and re-obligate its funds, the Agency never has funds in expired grant accounts (and therefore does not have any funds in such accounts at present). In other words, there are only two options with respect to how a USTDA grant-funded activity may end: either 1) the funded activity proceeds to completion with all grant funds disbursed within the period of availability of funds, or 2) the funded activity is terminated prior to completion and the funds de-obligated and re-obligated for another purpose. As long as funds are obligated within the initial statutory period, they remain available to be de-obligated and re-obligated for four years after the date they originally would have expired. As an example, consider the Vietnam grant previously referenced. Because the funds for that grant (fiscal year 2013-14 funds) were obligated within their original two-year period of availability, they are available to be de-obligated and re-obligated for four years from the date they otherwise would have expired (until September 30, 2018). The grant agreement's timelines are designed to ensure that the activity is completed well in advance of the deadline for de-obligation and re-obligation. It contains an estimated activity completion date of September 30, 2014 (these dates typically range from one to two years from the grant agreement's effective date), and an outside limit of four years from the grant agreement's effective date for disbursement of the grant funds, a standard time limitation in USTDA's grant agreements.

   Given the nature of USTDA's grant activities and the length of time its funds remain available, the Agency's program staff closely monitors grant activities throughout the duration of the funds' availability and in the rare event that an activity does not progress satisfactorily, terminates the grant agreement before the funds expire. As a further check, USTDA utilizes a strict de-obligation timeline to ensure that it takes the requisite actions if it does become necessary to de-obligate funds. In the event grant funds have not been disbursed by January 15 of their final fiscal year of availability, USTDA sends a warning letter to the grantee and U.S. firm, and begins taking the steps to terminate the grant agreement and de-obligate the funds, should that ultimately become necessary.

Q. Please provide the average length of time that it takes USTDA to close out a grant.

In the normal course of bringing a grant activity to completion (as opposed to "grant closeout" as the term is used by GAO), USTDA takes approximately one to two months to review the Final Report and make the final disbursement of grant funds. USTDA retains at least 15% of funding for an activity until the U.S. firm's Final Report is approved. The Agency undertakes a review of every Final Report to ensure that the U.S. firm has complied with the Terms of Reference and mandatory clauses of the grant agreement, the foreign grantee has approved the document, and all applicable documents have been submitted. If necessary, USTDA interacts with the U.S. firm to resolve any outstanding issues with respect to performance of the work. In some instances, such as when a question arises concerning the U.S. firm's performance, USTDA may hire an independent technical expert to evaluate the work performed and recommend a final amount due to the U.S. firm or owed to USTDA. Thereafter, the Agency disburses the appropriate final payment or seeks the appropriate refund from the U.S. firm. Throughout this process, USTDA's Office of Grants Administration coordinates with the Agency's program and finance staff, the Office of the General Counsel and USTDA's Deputy Director.

7. *Please describe TDA's pre-award process.*

The Agency's senior managers[1] employ a data-driven approach when reviewing funding requests for specific activities. Each program funding request, which must include an analysis of potential export sales, is evaluated in light of financing options, foreign competition and past Agency results in a particular country or sector. USTDA funding is prioritized for those projects for which the Agency's historical performance data suggests the strongest potential for success. Senior management approval is required for every obligation of program funds, regardless of the dollar amount.

USTDA evaluates projects based on the following criteria: (a) developmental priority in the host country, (b) likelihood of receiving implementation financing and (c) mutual benefit for the United States and partner country, including U.S. export potential.

USTDA develops early project planning activities by (a) working with a host-country partner (potential grantee) or (b) working directly with a U.S. firm that is pursuing a business opportunity in a USTDA-eligible country. These projects are developed, reviewed and recommended to senior management for funding (typically by grant to the foreign grantee) by USTDA's program staff.

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[1] USTDA's senior managers include the Director, Deputy Director, General Counsel, Chief of Staff, Director of Policy and Program, and Director of Congressional and Public Affairs.

- USTDA program staff identifies early project planning activities through meetings with U.S. industry and travel to priority markets.
- USTDA program staff recommends that funds be obligated to contract with a technical expert for a Desk Study/Definitional Mission to review the proposed project's scope of work and corresponding budget.
- Once a project has been reviewed by the technical expert, USTDA undertakes an extensive due diligence review of the proposed grantee, as further described below.
- If the project meets USTDA's funding criteria and the proposed parties clear due diligence review, the program staff provides an action memorandum requesting approval from senior management to fund the proposed activity by entering into a grant agreement with the proposed grantee.

In order to ensure that USTDA complies with legislative and executive branch restrictions and that its funds support the work and projects of reputable, solvent entities and individuals, the Agency conducts due diligence on all its program activities before its funds are put to use. Using a variety of private and public databases, U.S. government, internal and external sources, USTDA thoroughly yet expeditiously vets its prospective foreign grantees and delegates, as well as the U.S. firms and subcontractors that are proposed to perform USTDA-funded work. Specifically, USTDA conducts due diligence on both private and public prospective foreign grantees, foreign entities and individuals that may participate in its reverse trade missions, and U.S. firms and their subcontractors including, as applicable, the entities' parent corporations, principal officers, directors and shareholders.