

Remarks
Plenary Discussion on Project Financing
Bridging the Gap: U.S.- Africa Infrastructure Conference
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Introduction:

Thank you for the introduction. It is pleasure to be here today.

Let me begin with a quote from South African President Mbeki.

Last June, at the World Economic Forum, he said “the story that we should be telling the world about the continent is a story of great success. The economic outlook for Africa is the best in 30 years, and there is ample reason for optimism. The African continent has emphatically and irreversibly turned the corner.”

I believe that with the right kinds of partnerships and risk sharing investment in Africa, we can realize the success of Africa that President Mbeki saw, particularly through key investments in infrastructure.

Public-Private Partnerships:

Let me begin by saying that I believe that one of the less appreciated aspects of global development, be it in infrastructure or other sectors, has been the evolution of new and fresh approaches to tackle the challenges to investment.

By recognizing the value and utility of public private partnerships, we move beyond the fixed model of ODA to a dynamic model that integrates the strengths and resources of government and the private sector, to mitigate risk and promote sustained growth and development.

By focusing on private investment, we implicitly recognize that private business and development are not mutually exclusive. Indeed, that private finance has an increasing important role to play in promoting developmental investment impacting reformed trade regimes and good governance, which reduce risk.

OPIC:

Which brings me to my agency, OPIC. OPIC is the primary U.S. government agency charged with supporting developmental American investment in emerging markets worldwide, in more than 150 countries.

Partnering with the private sector, OPIC provides financing and political risk insurance to U.S. businesses of all sizes for projects in a range of sectors. We also support the creation of private equity investment funds that serve to effectively tap the “entrepreneurial capital” in developing countries.

Over the agency’s 35-year history, OPIC has supported \$164 billion worth of investments that have helped developing countries to generate more than 732,000 host-country jobs and \$13 billion in host-government revenues. OPIC projects have also generated \$69 billion in U.S. exports and supported more than 264,000 American jobs.

And OPIC has been committed to Africa. Since 1971, OPIC has provided nearly \$5.1 billion in financing and political risk insurance to 338 projects in Africa, primarily in the construction, services, energy, tourism and manufacturing sectors.

Currently, OPIC is providing more than \$1.7 billion in support to 70 projects in Africa, divided almost equally between financing and insurance.

OPIC in Action:

By serving as a risk mitigator, OPIC is a bridge between the private sector and developing economies, improving the ability of African countries to attract financing and reinforce the necessary reforms that will attract future investment. And by facilitating investment we encourage and accelerate reform. It becomes mutually reinforcing.

Let me outline a few specific examples of OPIC supported infrastructure projects in other countries and regions, and how they may beneficially serve as models for infrastructure investment in Africa.

Lima Airport:

Transportation, particularly air transportation, is key for the movement of both people and cargo. Modern airport facilities are critical to efficiency and security in an interdependent world.

Recognizing this, in 2001 OPIC provided a \$106 million in financing to a consortium of U.S. and international companies for the privatization and rehabilitation of the Jorge Chavez International Airport in Lima, Peru. The facility was critical to Peru as it handled nearly all of Peru's international air traffic and cargo and one third of its domestic passengers.

The project is a demonstration of two important goals: 1) Demonstrating the interest in and opportunity for global partnerships in infrastructure projects, 2) Support for government

reform efforts through privatization, while modernizing facilities and increasing efficiency of existing infrastructure.

ISAGEN:

A second project involves a \$212 million OPIC-insured facility to ISAGEN, a leading Colombian power company, which is supporting the upgrade of five power facilities in Colombia. In this case, the project will not only have a meaningful impact on Colombia's electricity generation, but it will open ISAGEN's equity capital to private investors, allowing for additional investment, improvement and expansion for electricity generation.

Apache:

And just this summer, OPIC extended \$200 million in political risk insurance to an American investor to develop 18 oil and gas concessions in Egypt. In this instance, we see the how the use of market mechanisms can lead to the prudent and constructive development of Africa's great natural resources for host country use.

Each of these projects serves as a reminder of another significant benefit of infrastructure projects; their impact on small business generation, skills transfer and employment in the local economy.

As counter-intuitive as it may seem, small businesses are playing an increasingly instrumental role in helping countries to develop their infrastructure. In particular, they are very astutely identifying for themselves discrete niche roles that typically support the delivery of infrastructure services for the larger projects. These new enterprises in turn, serve to augment host country technical proficiency and assist both foreign and domestic investment goals in the longer term.

In this regard, the OPIC funds program may have its largest impact. OPIC is currently supporting five investment funds in Africa with \$415 million in financing; in total, those funds have a target capitalization ranging from \$1.6 billion to \$1.8 billion.

By investing in “entrepreneurial capital” in diverse sectors, OPIC investment funds are essentially small business creation engines, developing new ideas, validating business concepts, promoting private sector activity, and all from a host country perspective. These businesses can serve as the dynamic building blocks that both attract and manage the larger infrastructure goals.

Housing: Comments you would like to make.

Transparency:

But even with our best efforts, there is a final ingredient for successful infrastructure development. I would encourage African governments and businesses to consider the important role transparency plays in encouraging overseas investment.

The New Partnership for Africa’s Development (NEPAD) program for infrastructure development accurately distills the challenge facing financing agencies – like ours – committed to supporting the development of Africa’s infrastructure. It states:

"Underpinning NEPAD's infrastructure programme is the recognition that the infrastructure gap is as much a policy and capacity gap as it is an investment gap. While the situation of infrastructure services is typically one of lagging coverage, poor maintenance and weak finance, many countries have been able to upgrade and expand their infrastructure assets and to improve services through a combination of *policy changes, institutional reforms* and investments."

It continues, “the withdrawal of governments from direct provision of services will require the establishment of policies and regulatory frameworks which ensure level playing fields, competition and the establishment of regional markets while still ensuring that end users still receive the expected services.”

NEPAD’s statement is instructive because it draws a direct line between successful economic reforms – transparency – and increased levels of private investment in infrastructure. The latter point is not meant to be critical, but merely expresses candidly the foundation needed by the private sector before it inserts its capital into emerging markets.

Indeed, OPIC itself last week raised its commitment to transparent business conduct to a new level, because we recognize that it is in the best interest of all parties.

OPIC’s Anti-Corruption & Transparency Initiative builds on efforts by the agency over the past five years to enhance the clarity of OPIC’s activities and its commitment to creating a level playing field for lawful business activities.

Chief among the reforms is an OPIC Statement of Principles endorsing the guidelines of the Extractive Industries Transparency Initiative (EITI), announced at the World Summit on Sustainable Development in 2002. EITI principles seek to ensure that revenues from extractive industries projects contribute to sustainable development and poverty reduction and not individual enrichment. OPIC will encourage its sponsors to abide voluntarily by the guidelines.

In addition, OPIC will publish an Anti-Corruption Handbook outlining project sponsors’ obligations to comply with requirements of the Foreign Corrupt Practices Act (FCPA).

Conclusion:

Let me conclude by say that through partnership, and understanding the role and utility of private enterprise as a dynamic catalyst for growth and as an agent of reform, we can see not just individual infrastructure benefits and the attendant improved FDI flows, but also the longer-term societal benefits for all the countries in Africa. I am glad that OPIC is playing a role in that.

Thank you.

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