



OFFICE OF INSPECTOR GENERAL

AUDIT OF OVERSEAS PRIVATE INVESTMENT CORPORATION PROJECTS IN JORDAN AND TURKEY

AUDIT REPORT NO. 8-OPC-15-002-P
SEPTEMBER 15, 2015

FRANKFURT, GERMANY



Office of Inspector General

September 15, 2015

MEMORANDUM

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

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

SUBJECT: Audit of Overseas Private Investment Corporation Projects in Jordan and Turkey
(Report No. 8-OPC-15-002-P)

This memorandum transmits our final report on the subject audit. We considered carefully your comments on the draft report and have included them in Appendix II.

The report includes five recommendations to address issues identified by our audit. After reviewing information provided in response to the draft report, we determined that final action was taken on Recommendation 1 and that a management decision was reached on Recommendations 2, 4, and 5. We disagree with the management decision on Recommendations 2, 4, and 5. We do not acknowledge a management decision on Recommendation 3 and therefore would like a written response from you on actions planned or taken regarding this recommendation within 30 days of the issuance of this report. Please provide evidence of final action on the open recommendations to your Department of Legal Affairs.

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

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Abbreviations

The following abbreviations appear in this report:

CAB	Cairo Amman Bank
COP	certificates of participation
Diwaco	Disi Water Company PSC
DPR	diversified payment rights
FCP	Foursan Capital Partners Fund I
GNI	gross national income
OIG	Office of Inspector General
OPIC	Overseas Private Investment Corporation

SUMMARY OF RESULTS

The Overseas Private Investment Corporation (OPIC) is an independent U.S. Government corporation that uses private capital to bring about social and economic development in developing countries. By statute, it is instructed to prioritize projects in countries with per capita gross national income (GNI) less than \$1,803 and to restrict projects in countries with per capita GNI of more than \$7,822.

OPIC uses the following types of financial instruments to achieve its mission.

- Insurance or reinsurance for eligible U.S. investors.
- Direct loans to projects involving small U.S. businesses.
- Guaranties to investors in projects involving large U.S. businesses.
- Guaranties to investors lending to investment funds operating in developing countries.

According to its 2014 annual report, OPIC funded or insured projects in 101 countries and had \$19.2 billion in liabilities and commitments as of June 30, 2014. At that time, OPIC had pledged \$1.2 billion in insurance or loans to projects in Turkey and \$1.1 billion in Jordan, the two largest amounts in its portfolio. For this audit, OIG selected projects in those countries from all four types of financial instruments, listed in Table 1. The total amount committed to them was \$900 million, and the amount disbursed or active (insured amounts at risk) as of September 30, 2014, was \$873 million.

Table 1. Summary of Projects

Country	Name	Type	Commitment (Million \$)	Disbursed or Active (Million \$)
Turkey	Garanti Diversified Payment Rights (DPR) ¹ Project	Guaranty	400	400
		Loan	250	240
Jordan	Disi Water Project	Insurance	150	150
		Loan	50	50
		Guaranty (fund)	50	33
Total			900	873

The audit objective was to determine the effects that selected OPIC-funded projects in Turkey and Jordan had on development, and whether they complied with controls over environmental impact, labor, and human rights.

Development Effect. OPIC obtains applicants’ estimates of a project outcome from which it derives a development score as a rough indicator of a project’s potential effect on development. Based on the score received, projects are categorized as “developmental” (score less than 100) or “highly developmental” (score more than 100); the higher the score, the greater the anticipated effect. In answering the objective, we accepted these scores as a proxy for

¹ See DPR explanation in Appendix III.

anticipated development effects² and found that OPIC projects in Turkey and Jordan had achieved some, but not all, of the effects.

Because of the OPIC guaranty, officials at Turkiye Garanti Bankasi A.S.—one of the country's largest commercial lenders—reported significant benefits to the bank and increased lending to women and small businesses. However, the bank did not hire any of the 70 new employees that OPIC had included in the development score it assigned to the project.

In Jordan, the Disi Water Project completed a 202-mile water pipeline from aquifers in the southern part of the country to Greater Amman in the north, providing more water and temporary employment as well as about 220 permanent jobs. Cairo Amman Bank (CAB) issued 660 of the 2,622 mortgages that OPIC anticipated. Foursan Capital Partners Fund I (FCP) made five investments, and we evaluated two of them: a food processor and a restaurant/hotel company. The other three were too recent to assess.

Environmental Compliance. Regarding the Disi Water Project, OPIC did not obtain reasonable assurance that health risks arising from the naturally occurring radioactive water in the Rum aquifer was mitigated (page 6). To make the water safe for consumption, the Jordanian Government agreed to blend it with water from other sources. Although a representative of the Ministry of Water and Irrigation said the blending was taking place, some project officials said they did not believe it was, and OPIC could not confirm it.

The food processor FCP invested in had international quality certifications indicative of high environmental standards. During our site visit, we saw recycling efforts, emissions-reducing technology, and numerous signs posted to remind employees about environmental and safety protocols such as fire safety instructions and evacuation routes. The restaurant/hotel added fire safety features and water conservation reminders in its facilities.

Our efforts to test the Garanti and CAB projects for environmental compliance were limited because we could visit Garanti borrowers only in Istanbul,³ and the construction activities were not part of CAB's activities.

Labor and Human Rights Compliance. OIG did not see any violations of labor and human rights standards based on the testing conducted. Opportunities for testing the Garanti project were limited to the specific site visits we conducted. The construction of the Disi pipeline was completed before our fieldwork began; therefore, we could not test whether it complied.

OIG found that OPIC did not follow its internal policies and best practices regarding competitively selecting service providers and approving projects (page 8). As a result, some decisions about these projects may not have been in the best interests of the U.S. Government.

Therefore, we recommend that OPIC:

1. Write a letter to the Jordanian Ministry of Water and Irrigation and lenders in the Disi Water Project reminding them of the importance of proper blending and requesting the results of water testing (page 7).

² The scores are not goals, targets, or requirements. Therefore, despite differences between the anticipated effects presented and the actual outcomes, we did not treat all shortcomings as negative findings and have no recommendations regarding the observations reported on page 4.

³ This scope limitation is addressed in Appendix I.

2. Amend its policy of declining to support any project that poses significant hazards to public health and safety or the environment unless OPIC obtains evidence confirming such hazards have been mitigated (page 7).
3. Adopt a policy of free and fair competition when selecting U.S. sponsors that will receive OPIC or project funds to provide goods or services to OPIC or the project (page 10).
4. Require U.S. sponsors to be eligible (take ownership or risk) before it grants project clearance (page 10).
5. Amend its policy to require policy clearance in advance of board approval (page 10).

Detailed findings appear in the following section, and Appendix I has information on the scope and methodology.

AUDIT FINDINGS

Projects Achieved Mixed Results

Garanti. The project OIG audited was an extension of a \$100 million OPIC guaranty of debt issued directly to the bank and sponsored by GE Capital (GE) in 2009. Three years later OPIC arranged for Garanti to get \$400 million by lending the money to Garanti Diversified Payment Rights Finance Company (GDPRF), a subsidiary established in the Cayman Islands; GDPRF then bought \$400 million in DPRs from Garanti.⁴

OPIC gave the second Garanti project a development score of 65 out of 160 (developmental). This included:

- 15 points for “financial instrument innovation/augmentation,” because the project would expand the bank’s lending operations to underserved markets and involve “custom-tailored financial products.”
- 20 points for serving an underdeveloped sector of the market, because 25 percent of the project’s loans were intended to reach enterprises owned by women and 30 percent were intended to reach rural areas.
- 7.5 points for job training based in part on the bank’s estimate that it would hire and train 70 employees.

Garanti achieved some of the anticipated effects reflected in the scores. We confirmed that the bank was able to increase its lending portfolio and loaned project funds to women business owners.⁵ In addition, bank officials said, private investors followed the OPIC loan with billions of dollars of investment in Garanti DPRs. However, the bank did not hire any new employees or introduce new or innovative products. Although the project appears to have had a significantly positive effect on the bank, its effects on development were not determined.

Disi Water Project. According to OPIC documents, water is a key priority for the Jordanian Government because the country has very little. To help increase the amount of water available, OPIC provided a \$250 million investment guaranty for Disi Water Company PSC (Diwaco) to finance a pipeline from aquifers in southern Jordan to Greater Amman that could pump 100 million cubic meters of water a year. The total estimated cost was around \$1 billion. OPIC also insured up to \$150 million of GE’s investment in the project. Loan disbursement began in July 2009 and ended in September 2013.

OPIC assigned the project a development score of 82.5 out of 160 (developmental), including 16 points for potential job creation and training. The primary anticipated effect on development was the delivery of potable water to Greater Amman.

Diwaco built the pipeline, and, as of October 22, 2014, it was pumping close to its target of 100 million cubic meters a year. The project provided temporary employment during the

⁴ Detailed summaries of the deal structures for Garanti and the water project are in Appendix III.

⁵ OIG did not confirm the percentage of loans and/or funds going to women and people/companies in rural areas because of the scope limitation described in Appendix I.

construction phase, and Diwaco reported that it created about 220 permanent jobs. Project officials said they did not need to import as much water since the pump station, shown in the photo below, began operating.



OPIC helped pay for this pump station, which provides water to Greater Amman. (Photo by OIG, October 22, 2014)

CAB. In 2009 OPIC loaned \$50 million to CAB to provide mortgages to low- to middle-income borrowers. According to OPIC, this project supported the Jordanian Government's 2008 National Housing Initiative designed to increase the supply of affordable housing. OPIC arranged for Cooperative Housing Foundation International (CHF), a U.S. organization, to conduct due diligence and project monitoring, and CHF—renamed Global Communities in 2012—used Vitas, a Jordanian subsidiary, to carry out these functions.

CAB estimated that it would issue 2,622 mortgages for homes built by the Jordanian Government. OPIC initially assigned this project a development score of 82.5 out of 160; 20 of those were for “multiplier effects” that assumed benefits for consumers and a stimulus for the construction industry. When the project was amended in 2012 to redirect \$25 million to small business loans, OPIC adjusted the score to 85.

As of June 2013, CAB reported issuing 660 mortgages worth about \$22.3 million, much fewer than 2,622. Bank officials said they could not lend out all \$50 million because the homes were built in remote or undesirable locations. So the project was redirected toward small business loans. However, CAB decided to repay \$20 million ahead of schedule because bank officials said they did not believe it could make the loans by August 2015. The remaining \$8 million must be returned to OPIC by August 2015 if not used for lending.

FCP Fund I. FCP is a \$91 million private equity fund that invests in companies located in the Middle East and North Africa with a focus on Jordan. As of October 2014, OPIC disbursed \$32.8 million of a \$45.5 million loan to FCP,⁶ which it used to finance five investments. At the time of OIG fieldwork, only two had any information to report—the food processing company and the hotel/restaurant company.

⁶ OPIC approved a total commitment of up to \$50 million to the project.

OPIC assigned the food processing company a development score of 82 out of 160, including 16 points for corporate social responsibility. We saw a significant number of safety protocols in effect at the processing plant—such as fire extinguishers and requirements to wear hardhats—that we accepted as positive elements of corporate social responsibility. Company officials attributed some of these improvements to FCP’s investment. However, one of the company’s international quality certifications preceded the investment. Therefore, OPIC’s involvement probably had a limited effect on development.

OPIC assigned the hotel/restaurant company a development score of 45 out of 100,⁷ and assigned it 12.5 points for host-country impact (expected tax revenue, charitable support, and local procurement) and 10 points for creating 110 new jobs by the fifth year. We saw improvements to the safety standards in a renovated hotel, but could not assess much else because the project was in its infancy.

OPIC Did Not Obtain Assurance That Health Risks Were Mitigated

According to Section 231(n) of the Foreign Assistance Act, OPIC should refuse to finance any project that poses an unreasonable or major health hazard. OPIC policy further elaborates on that by saying that it “will decline to support any project that poses significant hazards to public health and safety or the environment, unless such project can be structured to mitigate or to avoid such hazards.”

According to OPIC’s environmental clearance document for the Disi Water Project, naturally occurring radioactive water from the Rum aquifer posed a major health hazard unless treated or blended with water from other sources before consumption. The document stated that the aquifer water exceeded the World Health Organization (WHO) screening level by a factor of three in certain parts of the system, resulting in an increased risk of cancer for consumers.⁸

Project officials decided to blend the aquifer water with some from other sources. While other lenders required the Jordanian Government to blend the water and provide reports on radioactivity levels, OPIC did not; the environmental clearance document stated that the Jordanian Government would provide the monitoring reports on the water used for blending and the blended water to Diwaco instead.

Diwaco officials and one of the investors told OIG they doubted that Jordan’s Ministry of Water and Irrigation was blending the water enough, but they had no way to find out because Diwaco is responsible only for delivering the water. A ministry representative told OIG the water was being blended.

When we asked OPIC officials about this, they said they could confirm that blending had taken place. However, they did not provide documentation to support this claim and later said they believed the agreement between the Jordanian Government and other lenders provided reasonable assurance that Jordan is blending the water.

One of the officials said OPIC did not ask the government for water quality reports and did not know whether it had asked the other lenders for such reports because OPIC was not party to

⁷ OPIC changed its development scores in 2012 from a 160-point scale to a 100-point scale by removing indicators it considered less effective and aligning its scoring methods and other similar organizations.

the blending agreement between Jordan and its other lenders; therefore it had no legal basis for getting the monitoring reports. She added that OPIC had no recourse even if it discovered the water had not been blended.

The OPIC officials said Diwaco could not take responsibility for mitigating the risk because the Jordanian Government was responsible for treating the water. Therefore, the financing agreement did not include provisions requiring Diwaco to make the water safe or to confirm that blending had occurred.

Because OPIC cannot confirm that the water is being blended, it is unclear whether Amman residents are exposed to increased health risks. In addition, OPIC's decision to accept the Disi Water Project deal structure without obtaining the monitoring reports could set a precedent that allows OPIC to effectively bypass its environmental, health, labor, and human rights regulations as described in the Foreign Assistance Act.

Therefore, we are making the following recommendations.

Recommendation 1. *We recommend that the Overseas Private Investment Corporation write a letter to the Jordanian Ministry of Water and Irrigation and lenders in the Disi Water Project reminding them of the importance of proper blending and requesting the results of water testing.*

Recommendation 2. *We recommend that the Overseas Private Investment Corporation amend its policy of declining to support any project that poses significant hazards to public health and safety or the environment, unless OPIC obtains evidence confirming such hazards have been mitigated.*

⁸ According to WHO, anything more than 0.5 units per liter of alpha radiation is a potential hazard. Water for the aquifer measured 1.57.

OTHER MATTER

OPIC Did Not Follow Its Policies and Procedures

OPIC policy requires that all of its projects have a connection with a private company based in the United States. That company or “sponsor” is expected to make a “meaningful contribution.” Most commonly, the sponsor is required to own at least 25 percent of the project or bear risk equal to 25 percent of the project company’s equity.

In addition, OPIC’s *Finance Program Policies and Procedures Manual* explains that typically applicants (who can be the sponsors) bring business proposals to OPIC by first submitting an application. Applications are then screened and, if approved, move on to be reviewed from a policy standpoint (e.g., whether the project would harm the environment) and a credit standpoint (e.g., could the project repay the loan). The manual states that it is “optimal, but not required, for all policy clearances to be complete prior to submission of the transaction for credit and management approval.”

Other policies, procedures, and best practices established by OPIC’s manual include the following:

- OPIC performs credit due diligence and project monitoring for all projects.
- The U.S. and local sponsors are responsible for providing all information necessary to conduct due diligence.
- OPIC hires consultants as needed to help with due diligence.

Because borrowers and sponsors usually pay for due diligence consultants, OPIC does not consider their services regular U.S. Government procurements subject to Federal Acquisition Regulation procedures. Nevertheless, OPIC’s policy is to solicit proposals for the consulting engagement and to document the reason for any noncompetitive selections.

However, OPIC did not follow these policies and procedures in three of the four audited projects. Deviations fell into three categories: sponsor eligibility, sequence of clearance and approvals, and noncompetitive selection.

MBIA. MBIA, a New York-based insurer, was the U.S. sponsor of the 2012 Garanti project.⁹ MBIA’s eligibility was based on its agreement to reinsure 25 percent of OPIC’s \$400 million that was at risk. However, while MBIA was listed as the U.S. sponsor on the December 16, 2011, project application, the reinsurance agreement was not signed until August 23, 2012, a month after OPIC finalized the finance agreement with Garanti on July 20, 2012. So MBIA did not bear

⁹ The 2012 Garanti project included in this audit was an extension of a previous project that lent the bank \$100 million in 2009. GE was the U.S. sponsor of the 2009 project even though it owned only 21 percent of the project, 4 percent less than the required amount. GE sold almost all of its shares of Garanti in March 2011.

any risk (i.e. was not a qualified sponsor) until after the finance agreement, and OPIC approved the project when it did not yet have a U.S. sponsor.

MBIA's role in the Garanti project did not conform with other elements of OPIC's manual in which applicants or their U.S. sponsors seek OPIC financing for their business plans and pay for OPIC to procure services necessary to underwrite the financing. In this case, the business plan was in place before MBIA was involved, and MBIA received a fee for providing a service to OPIC even though it was not a consultant.

In addition, MBIA provided a service to OPIC but did not have a direct relationship to the project. MBIA is not party to the project finance agreement and Garanti is not party to the reinsurance contract, which is an agreement between OPIC and MBIA. OPIC officials said the reinsurance was an important way for OPIC to reduce its overall risk in Turkey. Garanti officials, on the other hand, said the purpose of the reinsurance was to satisfy OPIC's U.S. sponsor policy. Thus, MBIA provided a service to OPIC without a direct relationship to the project. As of February 6, 2015, MBIA had received \$6.1 million of the \$24 million guaranty fee that Garanti paid to OPIC. OPIC selected MBIA without competition.

Furthermore, OPIC's credit committee approved the Garanti project on December 16, 2011, the same date the application was submitted. However, OPIC's policy division did not clear the project until 2 months later, on February 15, 2012.

Disi Water Project. Gama Enerji, a subsidiary of Gama Holdings, submitted the Disi Water Project application without listing a U.S. sponsor on February 1, 2008. Project approval documents showed that OPIC expected GE to become the U.S. sponsor by purchasing 50 percent of Gama Enerji from Gama Holdings. However, regulators did not approve GE's acquisition until March 19, 2008, 2 days after OPIC's credit committee approved the project. Furthermore, OPIC's environmental clearance, dated April 28, 2009, stated that the acquisition was still pending. From the available documents and public records, OIG could not confirm that GE actually acquired 50 percent of Gama Enerji to become an eligible U.S. sponsor.

The credit committee approved the Disi Water Project on March 17, 2008, and OPIC's board of directors approved it on April 17, 2008. OPIC's policy division granted environmental clearance more than a year later on April 28, 2009.

CAB. Global Communities had no ownership in the CAB project and did not bear any project risk. However, OPIC hired Global Communities to conduct due diligence and monitor CAB's loan. It did not seek other bids.

As a condition of the loan, CAB was required to pay Global Communities \$1.5 million to conduct due diligence and monitor the loan for OPIC.¹⁰ In this capacity, OPIC considered Global Communities the project's U.S. sponsor even though it did not own any stock in the project company nor bear any risk.

OPIC selected MBIA and Global Communities without competition because it considered them sponsors, rather than consultants or service providers. OPIC has no solicitation or competitive process for selecting U.S. sponsors, and its policy does not address the timing of when U.S. entities become eligible sponsors. The policy also states that it is only optimal, but not required,

¹⁰ Global Communities has been the nominal sponsor of at least 26 OPIC projects worth more than \$1 billion.

for policy approvals to precede credit and management approval.

Treating consultants and service providers as sponsors, and the other policy and procedure deviations identified above, led to business practices that may not have been in the best interests of the U.S. Government. For example, OPIC has used a reinsurance agreement as the U.S. sponsor in three other cases, all since 2010 and two involving MBIA. When MBIA's credit rating dropped below OPIC's required level in 2011, OPIC amended the agreement to reflect the company's new, lower rating. When MBIA's credit rating was again reduced below that limit in 2012, OPIC took no action.

OPIC officials said getting reinsurance for the Garanti project was an important way for OPIC to reduce its overall risk in Turkey. However, the underwriting documents show that OPIC considered the reinsurance unnecessary, and an OPIC official said it gave MBIA the agreement to help the company after its credit rating dropped following the 2008 financial crisis. As a result, MBIA received at least \$6.1 million that OPIC could have used for other projects or returned to the U.S. Treasury for a reinsurance contract that was not required to underwrite the project.

Similarly, OPIC policy is to charge sponsors a retainer fee of \$45,000 to \$200,000 for due diligence on projects worth \$50 million, like CAB. The U.S. Government's interest in requiring CAB to pay Global Communities \$1.5 million for services that OPIC's internal monitoring division already conducts is unclear. Furthermore, if OPIC can avoid competitively selecting service providers by calling them sponsors, then its competitive selection policy is moot.

In addition, the ability of GE and MBIA to wait for OPIC approvals before taking on project risk or ownership created the opportunity for potentially unfair market advantages and investment returns. A potential project at the beginning of OPIC's approval process is less valuable than an approved one. OPIC essentially provided the value of the latter for the cost of the former, all while bearing the risk that the potential sponsor could have opted out of the project altogether. This is not in the best interests of the U.S. Government.

Finally, granting credit committee and board approvals before policy approval potentially puts pressure on the policy approval team to make sure the project can proceed.

Therefore, we make the following recommendations.

Recommendation 3. We recommend that the Overseas Private Investment Corporation adopt a policy to use free and fair competition when selecting U.S. sponsors that will receive OPIC or project funds to provide goods or services to OPIC or the project.

Recommendation 4. We recommend that the Overseas Private Investment Corporation require U.S. sponsors to be eligible (take ownership or risk) before it grants project clearance.

Recommendation 5. We recommend that the Overseas Private Investment Corporation amend its policy to require policy clearance in advance of board approval.

EVALUATION OF MANAGEMENT COMMENTS

We acknowledge OPIC's management decisions on Recommendations 1, 2, 4, and 5, but not for 3. We disagree with OPIC's response to Recommendations 2, 4, and 5. According to OMB Circular A-50, OPIC must "designate a top management official to oversee audit follow up, including resolution and corrective action," and "assure that management officials throughout the agency understand the value of the audit process and are responsive to audit recommendations." The responsibilities of the designated audit follow up official include establishing and documenting a system of audit follow up and resolving disagreements. OMB Circular A-50 also lists the standards for the audit follow up system, which must include specific criteria for resolving recommendations and maintain accurate records of the status of recommendations throughout the resolution process.

Recommendation 1. OPIC agreed with the recommendation and wrote a letter to the sovereign lenders reminding them of the importance of blending and asking for the results of tests on the water. We acknowledge that a management decision has been reached and OPIC has taken final action on this recommendation upon issuance of this report.

Recommendation 2. OPIC agreed to review and update its environmental and social policy statement to "endeavor to receive confirmation" that risks are mitigated. OPIC stated in a follow-up e-mail that this process will be completed by December 31, 2016, more than 1 year from now.

While we acknowledge that OPIC made a management decision on this recommendation, we disagree with it. A policy to "endeavor" to obtain proof that risks have been mitigated is not likely to ensure that OPIC can, in fact, obtain proof. We made this recommendation because, despite OPIC's statement in its management comments that its "current policies ensure that projects will not pose significant hazards to public health, safety, or the environment," our audit's results did not provide assurance that this is accurate.

Recommendation 3. We asked OPIC to adopt a policy of free and fair competition under specific circumstances described in the report. In response, OPIC agreed to clarify its existing policies. After issuing its formal response, OPIC forwarded an e-mail dated August 21, 2015, to OIG. In the e-mail, the corporation's general counsel shared OPIC's response to Recommendation 3 with OPIC vice presidents and asked them to update their respective department policies as needed. However, because the e-mail did not set a date by which this process would be completed, we do not acknowledge a management decision.

Recommendation 4. OPIC disagreed with the recommendation to require U.S. sponsors to meet eligibility requirements before it clears a project. And although we acknowledge that a management decision has been reached, we disagree with it.

OPIC stated that risk to the U.S. taxpayer does not begin until funds are disbursed, removing the rationale for controlling the timing of sponsor eligibility. In this case, we were concerned not only about the financial risk this practice poses to U.S. taxpayers, but also the risk of deals that

could violate the public trust by providing unfair advantages to partners possessing nonpublic information.

Recommendation 5. OPIC did not disagree with the recommendation to require policy clearance before board approval. But it did not accept the recommended action and confirmed via e-mail after issuing management comments that it did not intend to take any corrective action on this recommendation.

OPIC stated that its current practice is already consistent with the recommendation in most cases¹¹ and that the board is notified when a project presented for approval has not received policy clearance. However, it did not cite a policy supporting this practice nor could we find one. In addition, the audited project did not follow this practice; the paper prepared for the board to approve the Disi project did not state that an environmental clearance was pending.

We maintain that having the board approve a project before it has been reviewed from a policy standpoint could put pressure on the policy approval team to clear projects that might otherwise be rejected. Therefore, we acknowledge a management decision has been reached, though we disagree with it.

¹¹ We did not review a sufficient sample of OPIC approvals to confirm this.

SCOPE AND METHODOLOGY

Scope

We conducted this performance audit in accordance with generally accepted government auditing standards. They require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

We performed our audit work at OPIC headquarters in Washington, D.C., and at project locations in Amman, Jordan, and Istanbul, Turkey. The audit covered the period from each project's application date and considered evidence of development outcomes and compliance through March 10, 2015. We selected projects that represented at least 50 percent of active, disbursed risk in the two countries. The total amount for the four we chose was \$900 million, and the amount disbursed was \$873 million.

The audit team reviewed key control milestone documents for each project such as environmental clearances, development scores and clearances, investment committee approvals, and financing agreements, as applicable, to test internal controls.

The audit objective was to determine the effects that selected OPIC-funded projects in Jordan and Turkey had on development, and whether they complied with controls over environmental impact, labor, and human rights.

The audit did not fully answer the objective because of a scope limitation. In the case of Garanti, our site visits were limited because we had to depend on the bank to schedule visits with borrowers. After multiple delays, the bank scheduled four visits in Istanbul. Given the scheduling difficulty, and considering the additional travel costs and delays of seeking a statistically representative sample of site visits, OIG decided to accept a smaller, non-representative sample.

Methodology

To answer the audit objective, we interviewed OPIC personnel who implement controls over development impact, environmental compliance, labor, and human rights. We inspected contracts, agreements, associated pre-disbursement requirements, and major control milestones for each project.

We conducted site visits to verify factors OPIC used to justify the assigned development score. We used OPIC's definitions of development impact as presented in its project development scores as the basis of our analysis of the development outcome. We selected projects in Jordan and Turkey because OPIC has significant commitments in those countries. The four we chose represented all the mechanisms OPIC offers: direct loans, investment guaranties, investment funds, and insurance policies. The sampling method used cannot be projected beyond the specific project elements we inspected.

The audit relied on computer-generated data to summarize CAB's mortgage data. We did not test the validity of them. We conducted site visits to confirm that some mortgages were disbursed. However, because OPIC projects do not have strict targets, we accepted the data as reasonable for the purpose of this audit to conclude that the project had some affect but fell short of estimates.

MANAGEMENT COMMENTS

August 17, 2015

Emily R. Gardiner
Acting Regional Inspector General/Frankfurt
United States Agency for International Development
Office of the Inspector General

Re: Audit of the Overseas Private Investment Corporation Projects in Jordan and Turkey
(Report No. X-OPIC-15-00X-X)

Dear Ms. Gardiner:

The Overseas Private Investment Corporation (“OPIC”) appreciates the work of the United States Agency for International Development’s Office of the Inspector General (the “OIG”) in examining select projects supported by OPIC in Jordan and Turkey, as well as the opportunity to respond to the five recommendations in the draft audit.

As you requested, we are providing our response in two formats: a signed (scanned) copy and an electronic version in Microsoft Word with /s/ representing the signature of Management.

Please accept my thanks and the thanks of the OPIC staff for the cooperation and collaboration of the OIG staff in examining these projects.

Sincerely,

/S/

Elizabeth L. Littlefield
President & CEO

GENERAL COMMENTS

In connection with the OIG audit's objective to determine the development effects of certain projects, the OIG has highlighted in its report (the "Report") numerous positive developmental impacts of the projects supported by OPIC and has noted a few instances in which the projected developmental impacts had not been realized as of the date of the audit.

It is important to note that developmental impacts of OPIC-supported projects are projected as of five years after project operations begin. Several of the projects examined in the OIG audit have not been operating for five years. As such, the OIG's fact-finding and observations regarding development outcomes are welcome, helpful, and illustrative, but are premature in several cases should not, in every case, be considered dispositive.

In addition, as the Report points out that the audited projects had achieved some, but not yet all, of the projected effects, the Report should acknowledge that some of the actual developmental impacts realized so far have been greater than projected. For example, in the case of Garanti Bank, it was projected that 30% of the loans would be made in rural areas, but the actual percentage was 54%. Similarly, the Foursan project projected that it would pay \$300,000 of local government taxes, but it reports paying over \$1,000,000.

RESPONSES TO RECOMMENDATIONS

The recommendations of the draft audit, along with the responses of OPIC management, are:

Recommendation 1: Write a letter to the Jordanian Ministry of Water and Irrigation and lenders in the Disi Water Project reminding them of the importance of proper blending and requesting the results of water tests.

OPIC Response: OPIC agrees to send such a letter to the lenders to the Government of Jordan (European Investment Bank ("EIB") and Agence Francaise de Développement ("AFD"; collectively with EIB, the "Sovereign Lenders")) and request the results of the water tests from them. OPIC also agrees to consult with the State Department regarding the OIG recommendation with respect to such a letter and request to the Jordanian Ministry of Water and Irrigation.

However, it is important to note that it has been OPIC's understanding that the Government of Jordan is blending the water. As recently as March 2014, OPIC reviewed engineering reports that indicated the Jordanian Ministry of Water requested greater/lesser water volumes from specific wells (one of the two methods of water blending) in order to abate radiation levels.

The attached Annex 1 provides some detail regarding the steps OPIC took with respect to this issue in connection with this complex project.

Recommendation 2: OPIC should amend its policy of declining to support any project that poses significant hazards to public health and safety or the environment unless OPIC obtains evidence confirming such hazards have been mitigated.

OPIC Response: OPIC's current policies ensure that projects will not pose significant hazards to public health, safety, or the environment. At the same time, it is often the case that OPIC's assessment of, and commitment to, a project is made well in advance of the project's construction and operation. In those cases, OPIC requires a plan for mitigation of significant public health and safety or environmental hazards and carefully monitors the execution of that plan (which, by necessity, often occurs during construction and operation and after OPIC's support is provided).

OPIC agrees to amend its policy to require that, if a key mitigant is to be implemented by a party that does not have contractual obligations to OPIC, OPIC will endeavor to receive confirmation that such mitigation is occurring as planned.

When approached for financing of ongoing or mature projects, OPIC performs due diligence to determine and confirm whether projects are operating in compliance with OPIC standards or capable of achieving compliance and, thus, eligible for consideration.

Recommendation 3: OPIC should adopt a policy of free and open competition when selecting U.S. sponsors that will receive OPIC or project funds to provide goods or services to OPIC or the project.

OPIC Response: OPIC agrees to clarify its policies such that, when OPIC introduces a party into a transaction to act as a consultant or perform a service solely for OPIC's benefit and that OPIC would otherwise do itself (*i.e.*, due diligence or monitoring of loans), and the party so introduced is compensated by a third party (*i.e.*, the project, borrower, or sponsor), OPIC will either solicit proposals for such service or document a reason for selection without such a solicitation; provided, however, that a party that agrees to take a portion of OPIC's risk for its own account is not acting as a consultant or providing a service solely for OPIC's benefit.

Recommendation 4: OPIC should require U.S. sponsors to be eligible (take ownership or risk) before it grants project clearance.

OPIC Response: OPIC does not agree that the timing of establishing U.S. sponsor eligibility and project clearance must be sequential. The onset of any financial risk to U.S. taxpayers via an OPIC-supported project occurs at the actual disbursement of funds to the project -- not at the point of internal project clearance or even approval. Before OPIC disburses any funds to a project, all policy clearances must be obtained and all statutory and legal requirements must be met. Thus, there is no compelling rationale for imposing a rigid sequence on the timing of establishing U.S. sponsor eligibility.

Recommendation 5: OPIC should amend its policy to require policy clearance in advance of Board approval.

OPIC Response: OPIC agrees that its general practice should continue to aim toward completion of all policy clearances prior to approval of OPIC's Board of Directors (the "Board"). It is OPIC's current practice to do so, except where circumstances dictate an alternative (such as in the case of an environmentally sensitive Category A project with multiple lenders, which may require a significant amount of time to align OPIC's policy conditions with those of the other lenders). In such cases, where a policy clearance is lacking at the time of Board consideration of a project, the Board is notified of such prior to its vote. It is important to note that Board approval is not dispositive of the disbursement of funds and assumption of any fiduciary risk to OPIC. In the absence of policy clearances and compliance with statutory and legal requirements, funds cannot be disbursed.

Annex 1

Jordan is a chronically water-stressed nation whose resources have been even further strained by the massive influx of refugees from the conflict in neighboring Syria. The Disi Water Project was conceived by the Government of Jordan (“GoJ”) as a way to safely utilize the water in the Disi Aquifer for the people of Amman and other parts of Jordan.

The Disi Aquifer is a large aquifer that has provided water to the people in the region for decades. Like in many parts of the world (including Jordan, South Africa, Australia, New Jersey, and many others), the bedrock of the Disi Aquifer contains radioactive minerals that, over time, leach into the water. One of the most common acceptable methods of treating naturally occurring radioactivity is to blend it with non-radioactive water, which is what the GoJ is doing with respect to water from the Disi Aquifer.

Dividing responsibilities in a massive water project among public sector and private sector entities is quite common. For the Disi Water Project, the GoJ issued a request for proposals for a private-sector concessionaire to construct and operate portions of the project. The Disi Water Company PSC, a privately held partnership, (the “OPIC-Supported Party”) won the competition and entered into a concession agreement with the GoJ. According to that concession agreement (as proposed by the GoJ and signed by both parties), the OPIC-Supported Party would construct, operate, and maintain the following:

- a) wells in the GoJ-designated wellfield located in the Disi Aquifer, which are to be drilled in particular areas to be agreed between the GoJ and the OPIC-Supported Party;
- b) collection tanks;
- c) Madaba Pump Station;
- d) two reservoirs in Amman (however, the OPIC-Supported Party is responsible for operating only one of the reservoirs, which is not being used for blending and is not directly connected to the general water supply);
- e) pipelines from the wells to the collection tanks; and
- f) pipelines from the collection tanks to the Madaba Pump Station to two separate reservoirs in Amman.

Also according to the concession agreement, the GoJ would be solely responsible for the following:

- a) testing the radiation levels of the water being pumped by each of the wells in the wellfield (as the amount of radiation from different parts of the Disi Aquifer can vary substantially);
- b) instructing the OPIC-Supported Party to turn on/off certain wells, based on the results of those tests;
- c) operating the two Amman reservoirs that are used for water blending;
- d) testing the radiation levels of the water in the Amman reservoirs;
- e) pumping water into the Amman reservoirs from various freshwater (and non-radioactive) reservoirs in other parts of Jordan (the “Highland Aquifers”) sufficient to achieve acceptable levels of radiation; and
- f) pumping the water from the Amman reservoirs into its water system and to its people.

To help to finance the OPIC-Supported Party’s costs to fulfill its obligations, OPIC provided an

investment guaranty to the OPIC-Supported Party. To help to finance the GoJ's costs to fulfill its obligations, two European development finance institutions (European Investment Bank ("EIB") and Agence Francaise de Developpment ("AFD"; collectively with EIB, the "Sovereign Lenders")) provided loans to the GoJ.

OPIC and the Sovereign Lenders worked closely to develop risk mitigation plans for the entire Disi Water Project. Some of those mitigants were the obligations of the OPIC-Supported Party. Other mitigants were the obligations of the GoJ. The Sovereign Lenders depended on OPIC and the other lenders to the OPIC-Supported Party to enforce the mitigation obligations of the OPIC-Supported Party. OPIC depended on the Sovereign Lenders to enforce the mitigation obligations of the GoJ.

However, OPIC did not rely exclusively on a contractual obligation from the GoJ to the Sovereign Lenders with respect to necessary blending of the water. In accordance with OPIC policy, OPIC's due diligence examined whether the Disi Water Project was structured to mitigate the risk of the radiation hazard. During that due diligence, OPIC determined that the following factors also mitigated the risk:

- a) GoJ promulgated national standards regarding water quality;
- b) GoJ invested considerable financial resources designing the Disi Water Project with the functionality necessary to blend the water to reduce the naturally occurring radiation, even though a system without such functionality would have been significantly less expensive;
- c) sufficient water was available from the Highland Aquifers to blend the water to meet Jordan's national water quality standards;
- d) GoJ declared in its concession agreement with the OPIC-Supported Party that it maintained the exclusive responsibility for water quality testing for radiation and water blending (*i.e.*, water radiation mitigation) and specifically excluded the OPIC-Supported Party from such responsibility;
- e) the Environmental Schedule governing water quality treatment, which was attached to the financing documents with the Sovereign Lenders, and included the water quality management system, is consistent with international best practice;
- f) GoJ agreed in the loan documents with the Sovereign Lenders that it would take actions to treat and test the water for radiation to ensure that it meets water quality standards; and
- g) the Sovereign Lenders would receive regular reports providing evidence that the GoJ was satisfying its obligations regarding treating and testing the water for radiation and would be immediately notified if blended water output exceeded a specified level.

Based on OPIC's independent due diligence, OPIC determined that it was reasonable to rely on the Sovereign Lenders to monitor and enforce obligations of the GoJ, particularly since OPIC did not have a contractual relationship with the GoJ to take actions to enforce those obligations if the GoJ failed to comply with them.

However, as noted in the management response, OPIC does appreciate that, in some instances, such reliance may not be reasonable. Therefore, in accordance with the OIG's recommendation, OPIC agrees to amend its policy to require that, if a key mitigant (such as blending of water, in the case of the Disi water project) is to be implemented by a party that does not have contractual obligations to OPIC, OPIC will endeavor to receive confirmation that

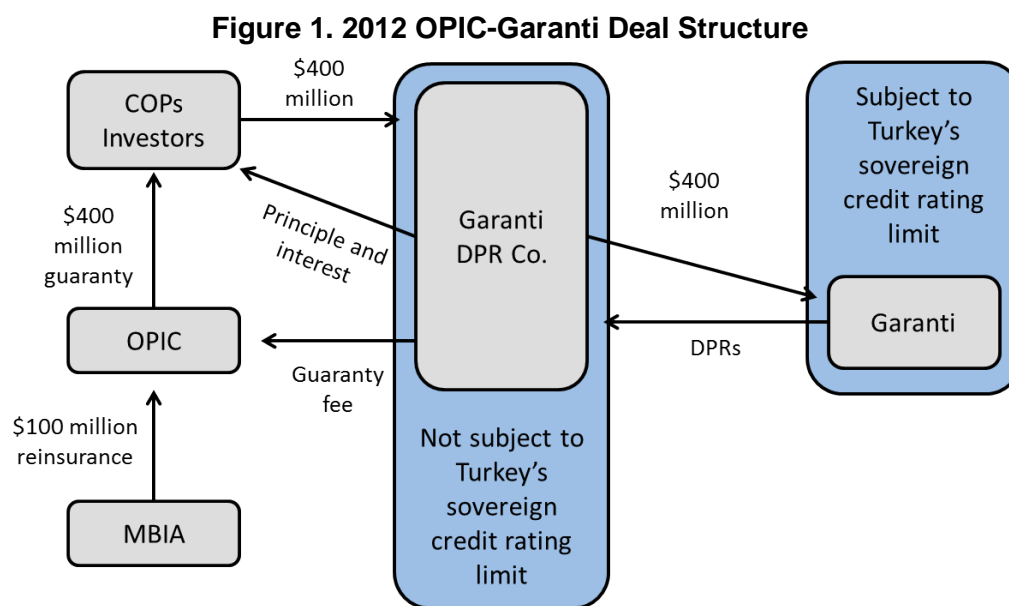
much mitigation is occurring as planned.

DEAL STRUCTURES

Garanti Project

Background. OPIC projects involving large U.S. businesses are funded by selling certificates of participation (COPs)—fractional shares of the project’s debt. OPIC guaranties that COP buyers are repaid in full, backed by the full faith and credit of the U. S. Government.

DPR contracts have been an important part of Garanti’s strategy for more than a decade. An OPIC official said Turkish banks use DPRs to issue debt at credit ratings above Turkey’s sovereign credit rating ceiling. This allows the bank pay lower interest rates on its debt. Garanti established the Garanti Diversified Payment Rights Finance Company, a special purpose vehicle (SPV) in the Cayman Islands, to manage its DPR transactions. It had used MBIA to insure the transactions. However, the DPR market weakened after the 2008 financial crisis, in part because insurers like MBIA’s credit rating plummeted. Figure 1 shows how the arrangement was structured below.



Source: Created by OIG.

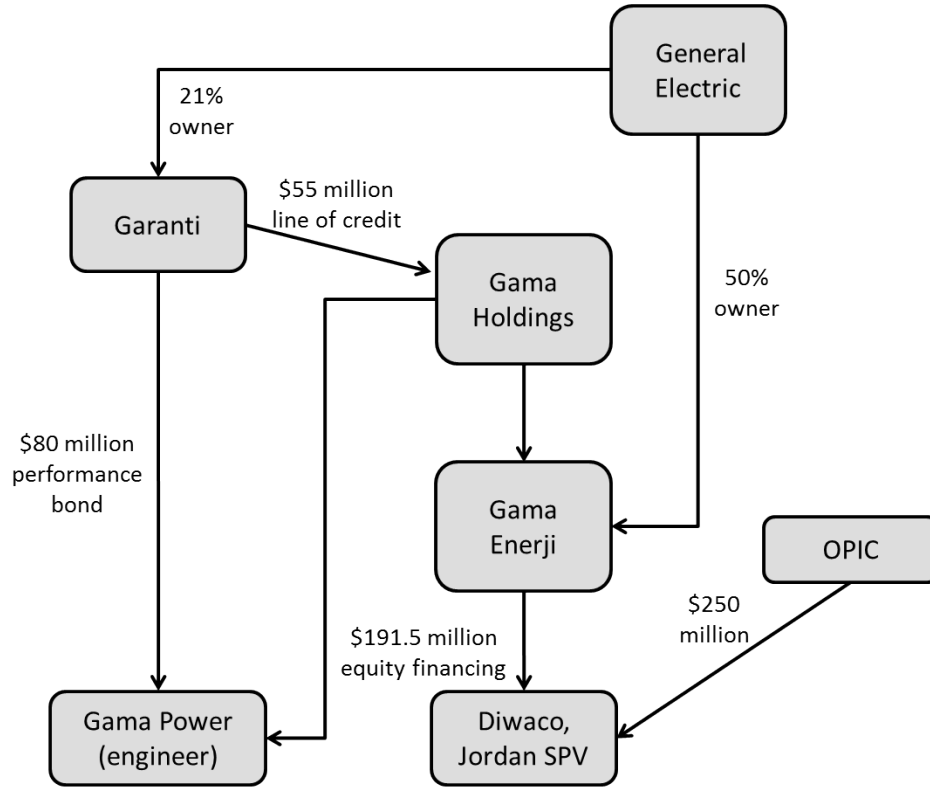
Disi Water Project

Background. OPIC’s involvement in the project also was structured as an investment guaranty. U.S. sponsorship and other relevant parties are shown in Figure 2. Gama Enerji submitted the project application in February 2008 without a U.S. sponsor. GE reportedly purchased 50 percent of Gama Enerji from Gama Holdings¹² and became the U.S. sponsor after OPIC’s credit committee approved the project.

Garanti also was indirectly involved as it provided a \$55 million line of credit and \$80 million performance bond for the project.

¹² We could not confirm that this transaction ever went through, however.

Figure 2. Disi Water Project Deal Structure



Source: Created by OIG

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