

Overseas Private Investment Corporation

Background. OPIC is a U.S. government agency that serves as a development finance institution working with the private sector. Through a variety of support mechanisms (primarily to investors), OPIC helps U.S. businesses gain footholds in emerging markets. OPIC supports private equity funds and other investors with three primary product offerings:


- *Investment Fund Financing*
- *Corporate or Project Financing*
- *Political Risk Insurance*

In particular, investments in the renewable energy sector have become one of OPIC's top priorities, where the agency is focused on fulfilling its mandates for increased renewable energy and energy efficiency projects. Similarly, government mandates around the world for energy efficiency and renewable energy have spurred demand for the types of projects OPIC can support; however, certain markets remain difficult for OPIC to penetrate. For example, India has aggressive goals for renewable energy, but local content requirements have limited OPIC's ability to lend into this growing market for innovative technology projects. For the emerging clean tech sector, technology risk is often a hurdle for financing. Because OPIC typically guarantees equity that is already in place, technology risk issues have not been as significant a determining factor for the agency as they have been for other government-guaranteed financing.

Below are summaries of the three product offerings available through OPIC to support clean tech projects and investments.

Investment Fund Financing. OPIC provides long-term government-guaranteed debt to privately owned and managed investment funds. Investment funds then leverage OPIC's participation and government guarantee to (a) attract equity (or other subordinated capital) from institutional investors and financial institutions, and (b) make investments in companies seeking to expand or develop projects overseas. Through these investment funds, OPIC supports long-term, patient capital investment in new companies, expansions, restructuring capitalizations, or privatizations.

OPIC's investment fund program began in 1987, and since then OPIC's commitments have totaled more than \$3.6 billion to over 50 private equity funds. The funds have in turn invested more than \$4.6 billion in over 470 private companies, the vast majority of which are small and medium-sized entities. OPIC



maintains a complete list¹ of its investment funds, including the fund size, country, or region; primary investment focus; and status (e.g., fundraising, investing, divesting).

How It Works. OPIC supplements private equity capital by lending long-term debt (typically with a 10 to 12 year maturity) to an investment fund. Financing typically is provided in the form of a loan or a loan guarantee in which certificates of participation (COPs) guaranteed by OPIC (and backed by the full faith and credit of the U. S. government) are sold to eligible investors. For private equity funds and private equity funds-of-funds, OPIC can provide a loan guarantee between \$20 million and \$150 million per fund, or up to a 50 percent match to the equity capital raised. For debt facilities, OPIC can provide between \$10 million and \$100 million in the form of senior debt, up to 60 percent of the capitalization of any debt vehicle.


The investment fund manager can then leverage OPIC's participation to attract additional equity, but will ultimately deploy its capital to a portfolio of investments using the instruments it deems most appropriate. These may include equity and equity-related investments, participating debt, and other structures appropriate to the local investment environment. OPIC does not guarantee individual investments made by the investment fund in portfolio companies, nor does the agency guarantee an investor's equity commitment to an investment fund.

Impact Investment Initiative to Spur New Clean Tech Investment Funds. In March 2011, OPIC announced an *Impact Investment* initiative, whereby the agency solicited proposals from investment fund managers whose investment strategies focus on key sectors, including (but not limited to): renewable resources, sustainable agriculture, water, sanitation and waste management, and basic infrastructure. Up to seven new investment funds will be selected as part of the *Impact Initiative* and will raise capital to make new investments according to their proposed strategies. For the selected funds, OPIC is considering providing up to a 100 percent match to the equity capital raised, or up to one-half of a fund's total capital. At least one fund will be geography-focused on investments in China and India, and at least two are expected to be focused on agriculture-based investments.

OPIC Structures to Support Investment Funds. OPIC support of investment funds is structured most often as leveraged debt, but it may be provided in the form of a guarantee on fund capital whereby equity and debt interest "units" are sold into the capital markets.

- **Leveraged Debt Structure.** OPIC typically provides its support to private equity funds in the form of a senior secured loan. OPIC has sold participations in these loans to institutional investors in the U.S. capital markets, where proceeds from the sale of COPs are used to fund OPIC's loan. An OPIC-guaranteed loan will typically bear a base interest rate comprised of (a) the rate for U.S. Treasury securities with comparable terms and tenor determined separately for each disbursement plus (b) a premium over U.S. Treasury securities, which COP holders require.

¹ The OPIC list of funds can be found at <http://www.opic.gov/investment-funds/full-list>.




For loan guarantee support to debt facilities where there is significant involvement of a U.S. small business, OPIC can make a direct loan. Otherwise, OPIC obtains funding for its loan through COPs, or through a risk-sharing arrangement with a U.S. financial institution. OPIC expects that its creditor participation in debt facilities will be on a senior basis, *pari passu* with the holders of other senior debt, if applicable, and that OPIC will have (or share in) a first lien on all assets. Other structures will be considered on a case-by-case basis.

- **Unit Structure.** OPIC can also guarantee equity fund capital from eligible investors through a unit structure, whereby institutional investors purchase “units,” consisting of an equity interest and an OPIC-guaranteed debt interest in the investment fund. The debt portion (with interest) is fully guaranteed by OPIC and can provide investors with some level of downside protection on a portion of their overall capital commitment to an investment fund. Units can only be purchased by U.S. Eligible Investors, defined as “U.S. Persons,” but also including a trust that is “substantially beneficially owned by U.S. citizens.”

Corporate and Project Financing. OPIC can also provide medium- to long-term financing through direct loans and loan guarantees for eligible investment projects in developing countries and emerging markets. Although all projects are evaluated on a case-by-case basis, OPIC financing will generally support up to 75 percent of the total project costs, with tenors ranging from three to fifteen years. In general, OPIC looks for a debt-to-equity ratio in the range of 60/40, although this will also vary with the nature of a specific business and the variability of expected cash flows.

- **Corporate Financing Support.** OPIC can provide a loan to the U.S. corporate sponsor of an overseas project. Instead of evaluating the project company, OPIC evaluates the U.S. company’s offered collateral as well as the ability of the U.S. company to repay the loan. Although the U.S. company serves as the borrower and provides the collateral, the purpose of this type of financing is to support overseas projects. In terms of driving energy efficiency projects overseas, OPIC’s corporate financing support would be ideal for domestic manufacturers or energy service companies. Under this model, an OPIC loan to an energy service company or engineering firm would enable them to purchase U.S. goods and deploy a project overseas.
- **Project Finance Support.** In contrast to the corporate finance structure, OPIC focuses on the economics of the overseas project in terms of loan repayment. The economic, technical, marketing, and financial soundness of the project are fully evaluated to determine creditworthiness, and there must be adequate cash flow to pay all operational costs and to service all debt. Collateral to secure the loan may be in the host country and/or in the U.S. The project sponsors are expected to support the overseas operation until determined milestones (e.g., completion, implementation, and financial viability) are met. OPIC requires significant U.S. participation in overseas projects, which can be achieved with either an equity or a long-term debt investment. At a minimum, there must be U.S. ownership interests of at least 25 percent. Alternatively, substantial long-term debt from a U.S. bank can be deemed sufficient to constitute U.S. ownership.



Direct loans are usually reserved for projects sponsored by or substantially involving U.S. small and medium enterprises (SMEs), and loan guarantees are utilized for larger projects. There is no minimum loan size, and the agency can loan or guarantee up to \$250 million per project (up to \$325 million in oil and gas projects). However, any loans or guarantees over \$30 million must be approved by the OPIC board of directors.

In cases where a loan guarantee is the appropriate structure, a financial institution must be identified to provide the funds to OPIC, where the agency serves as the lender for the project, and the institution is protected by the guarantee. Eligible financial institutions include legal entities created under the laws of the U.S., any state or territory, or Washington, D.C., including corporations, partnerships, or other associations like nonprofit associations more than 50 percent beneficially owned by U.S. citizens. Foreign corporations that are more than 95 percent U.S.-owned also are eligible.

Historically, OPIC's project financing efforts have been focused on rural electrification, but the agency is interested in deploying new models that will support energy efficiency projects, as well as exports of goods overseas. OPIC can support lease financing structures on specific equipment, such as vehicles. For example, a municipality in Mexico may want to lease a fleet of advanced vehicles that are manufactured in the U.S. OPIC would provide financing for the U.S. manufacturer through a financial intermediary that receives an OPIC guarantee.

Political Risk Insurance. OPIC also provides political risk insurance with a variety of types of coverage, including currency inconvertibility, expropriation, political violence, and terrorism, as well as special coverages related to capital markets, institutional loans, leasing (capital and operating), and natural resource projects. Most recently, OPIC has offered political risk insurance related to carbon credit mandates of a host country.

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