

# OPIG



## OPIG in Pakistan

November 2007

# Outline

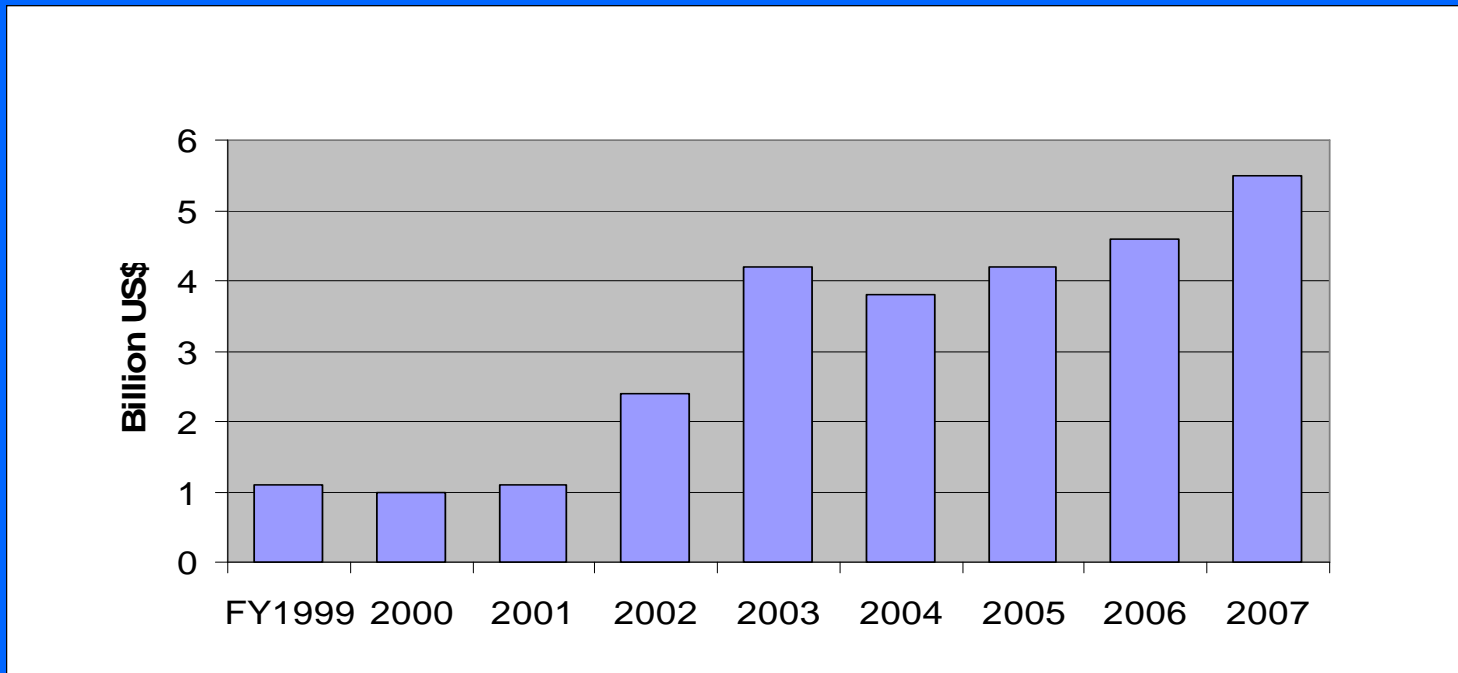
- **1. Brief Economic Overview**
- **2. OPIC 101**
- **3. OPIC Projects in Pakistan**

# Economic Overview

- Real economic growth 7%, up from 6.6% last year
- GDP per capita remains low at US\$622 in FY06 and 32% of population is below the poverty line
- Consumer Price Inflation for FY07 was 7.7%
  - Higher than target of 7.5% but below the previous year's rate of 7.9%
- Inflation propelled by:
  - Expansionary fiscal policy
  - High global oil prices
  - Sustained monetary overhang
- Mitigating factors include:
  - Strong commitment to macro stability and tight monetary policy

# Remittances to Pakistan

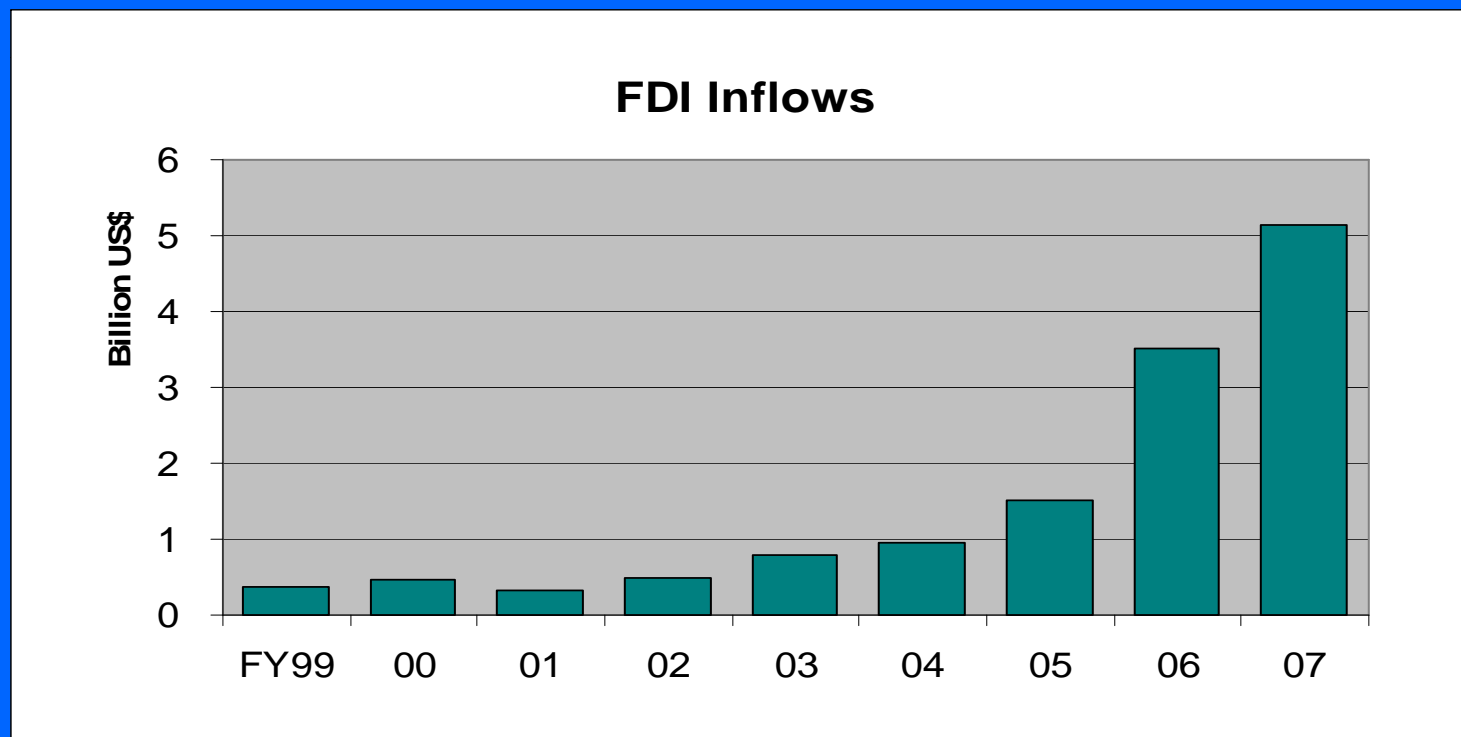
- Remittances reach a record US\$5.5 billion in FY 2007



FY ends June 30

# FDI Inflows Since FY 1999

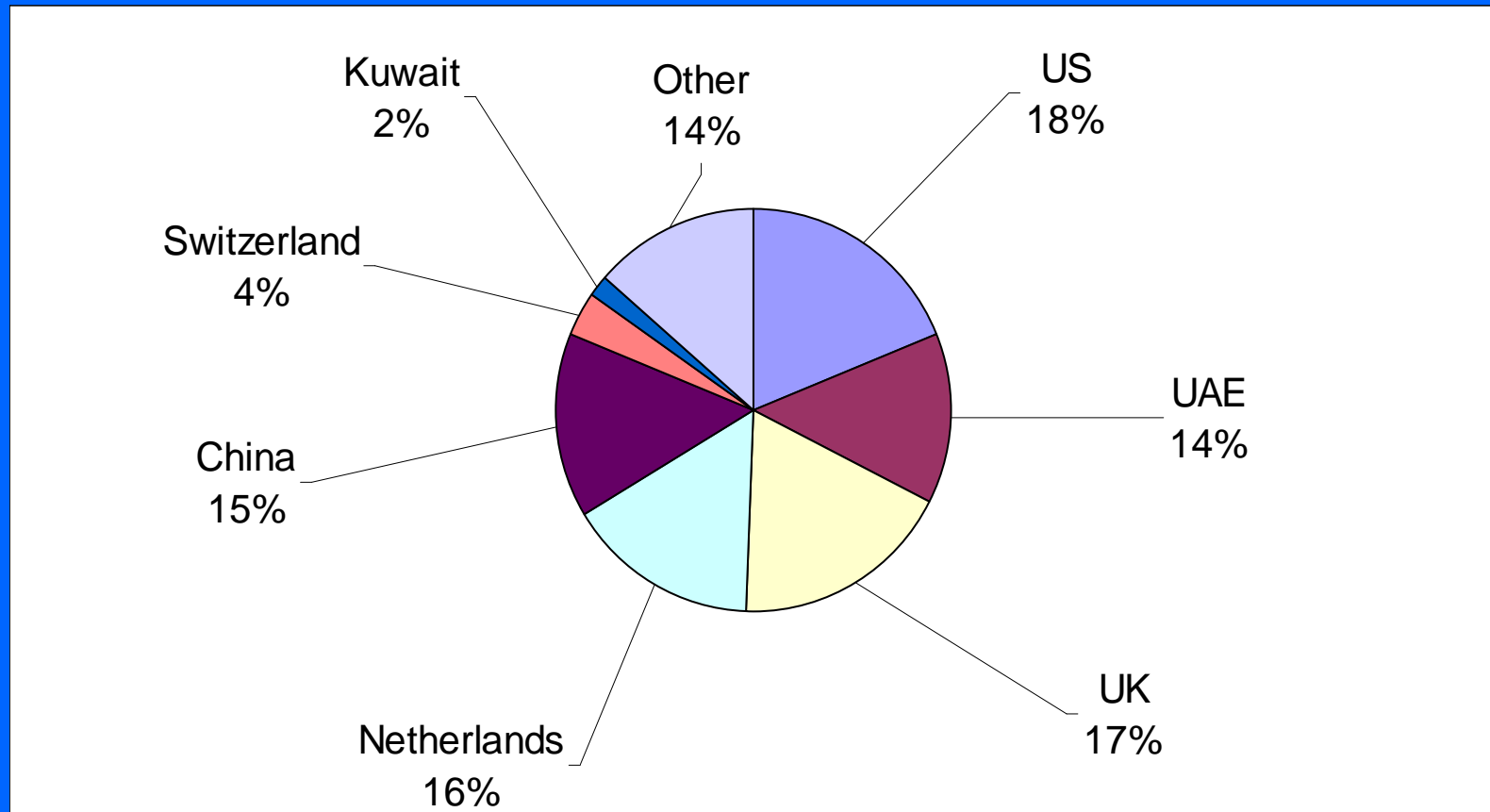
- FDI levels have increased steadily since 2001 –
- achieving an all time high of \$5.1 billion in FY07



FY ends June 30

# Top Sources FDI in FY 2007

The US is currently the largest contributor of FDI to Pakistan



# Fiscal Situation

- **Tax revenue currently amounts to only 10% of GDP due partly to:**
  - **High rate of Tax evasion**
  - **Dependence on import tax revenue**
- **High military expenditure and interest payments, have led to domestic public debt levels of greater than 50% of GDP.**
- **Result: Budget remains in deficit**

# Fiscal/Tax Reform

- **Ongoing World Bank Funded Projects on Tax Reform have:**
  - **Reorganized the Central Board of Revenue**
  - **Established “large and medium tax payers” units**
  - **Extended the general sales tax to the retail sector**
  - **Deregulated state administered prices**
- **Authorities currently focusing on:**
  - **Further extending the tax net into the service and agriculture sectors**
  - **Increasing the provinces’ contribution to overall revenue collection**

# Banking Reforms

- **Privatization of State-Owned Banks**
  - 85% have been privatized
- **Opening of Banking Sector to Foreign Competition and Ownership**
- **Enhancement of governance and transparency**
- **Development of an effective regulatory and supervisory capacity at the State Bank of Pakistan**

# Medium Term Growth Outlook

- **Weak fiscal situation and structural shortcomings are impediments to sustainable growth, such as:**
  - **Infrastructure problems**
  - **Lack of skilled labor**
  - **Unreliable power and telecommunications networks**

# What Is OPIC?

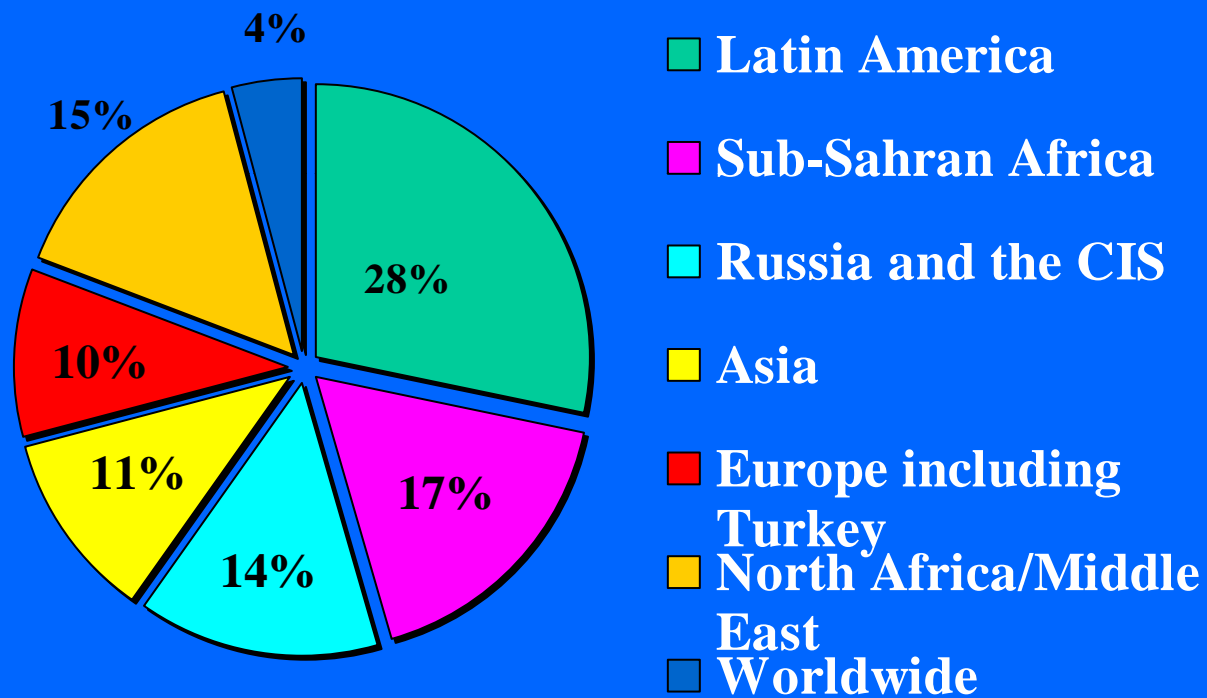
- **Self sustaining, U.S. Government agency**
  - Promotes development
  - Supports U.S. private investment abroad where political risk insurance and loans not commercially available
  - Promotes best practices
- **Three main product lines**
  - Political Risk Insurance
  - Loans or Guaranties to projects
  - Investment Funds for seed equity
- **Advocacy**

# Key Numbers

- **Employees** 200
- **Revenues** \$400 million
- **Net Income** \$330 million
- **2006 Transactions** 121

# World-Wide Portfolio

## \$11 Billion



# Statutory Requirements

- **Human rights**
- **Worker rights consistent with International Labor Organization**
- **World Bank Guidelines for Environment**
- **U.S. and host country economic effects**
  - **No loss of U.S. jobs or harm to U.S. economy**
  - **Must have positive host country developmental impact**
- **Requirements are embedded in relevant project contracts**

# Insurance Programs

**Coverage to U.S. equity, lenders, and capital markets**

- **Inconvertibility and Transfer Risk**
- **Expropriation Risk**
- **Political Violence Risk**
- **Non-Honoring of a Sovereign Guaranty**

# Private Equity Funds Programs

**Loans supplement capital provided by private sector**

- **29 equity funds in operation**
- **Private sector fund manager (selected in open and competitive manner) makes all investment decisions**
- **OPIC is the largest sponsor of private equity funds in emerging markets**

# Finance Programs

- **Private Sector Projects**
  - No Government shareholder or operating control
- **Require an appropriate U.S. “connection”**
  - U.S. Equity at risk
  - U.S. Debt at risk
  - “Significant Involvement”
- **OPIC lends or guarantees alone or along with private sector lenders or with IFI’s**
- **OPIC does not compete with private sector financial institutions**

# **Finance Programs: Flexible Structures**

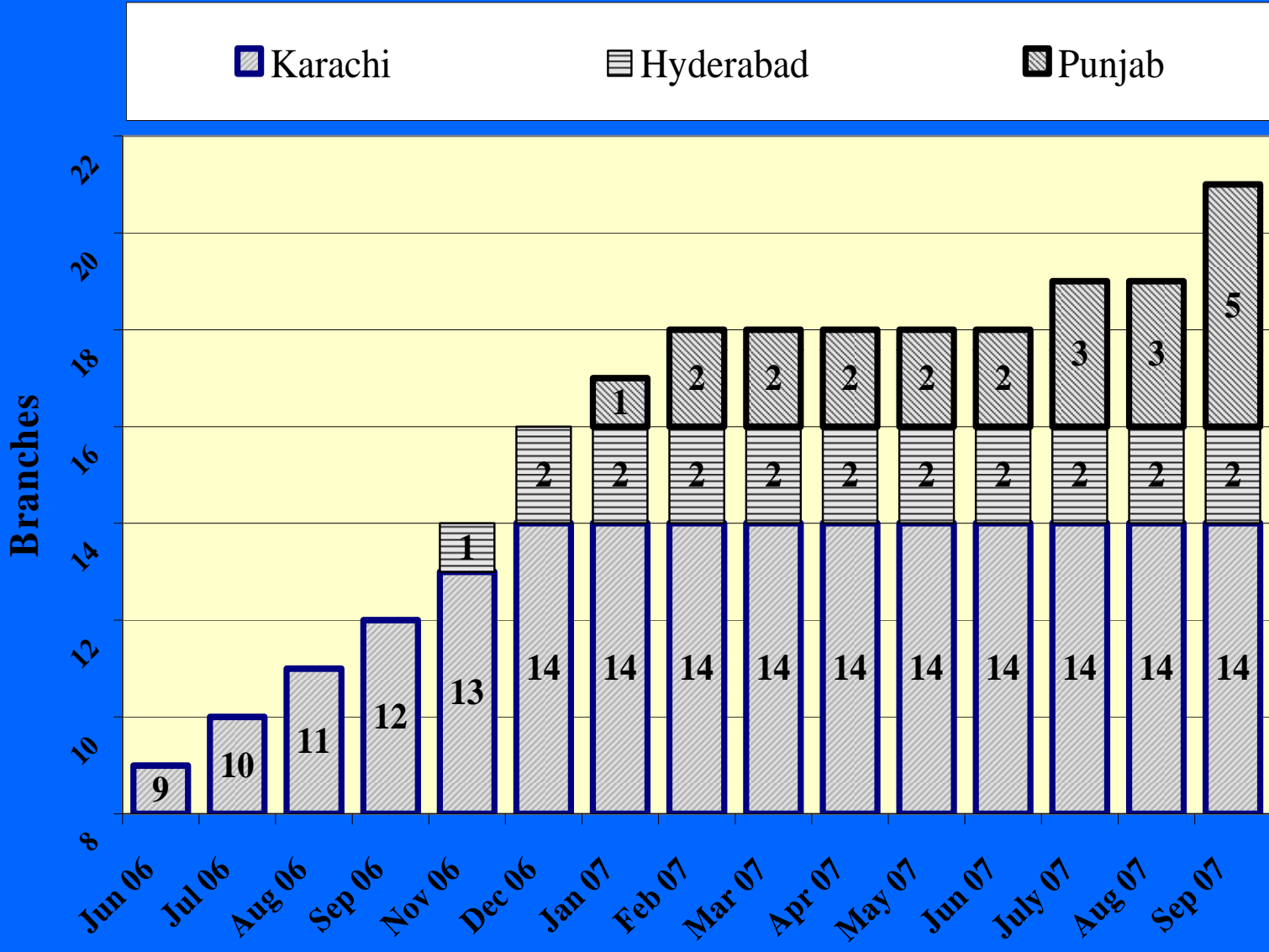
- **Corporate or project finance lending**
- **Up to \$250 million per project; \$325 million in oil and gas**
- **Tenors of up to 30 years**
- **Fixed or floating rate generally over U.S. Treasuries**
- **Loans or guarantees (local currency )**
- **Tailored flexible disbursements and amortization**
- **Senior and Subordinated debt**

# OPIC Activity in Pakistan

# Tameer Microfinance Bank

- **OPIC \$16.5mm loan**
- **Established in Karachi 2005**
- **Currently has 22 branches and 300 employees**
- **26,000 loans made totaling PKR 500mm (\$8.1mm)**
- **Generally \$500 loans**
- **Individual lending not group lending**

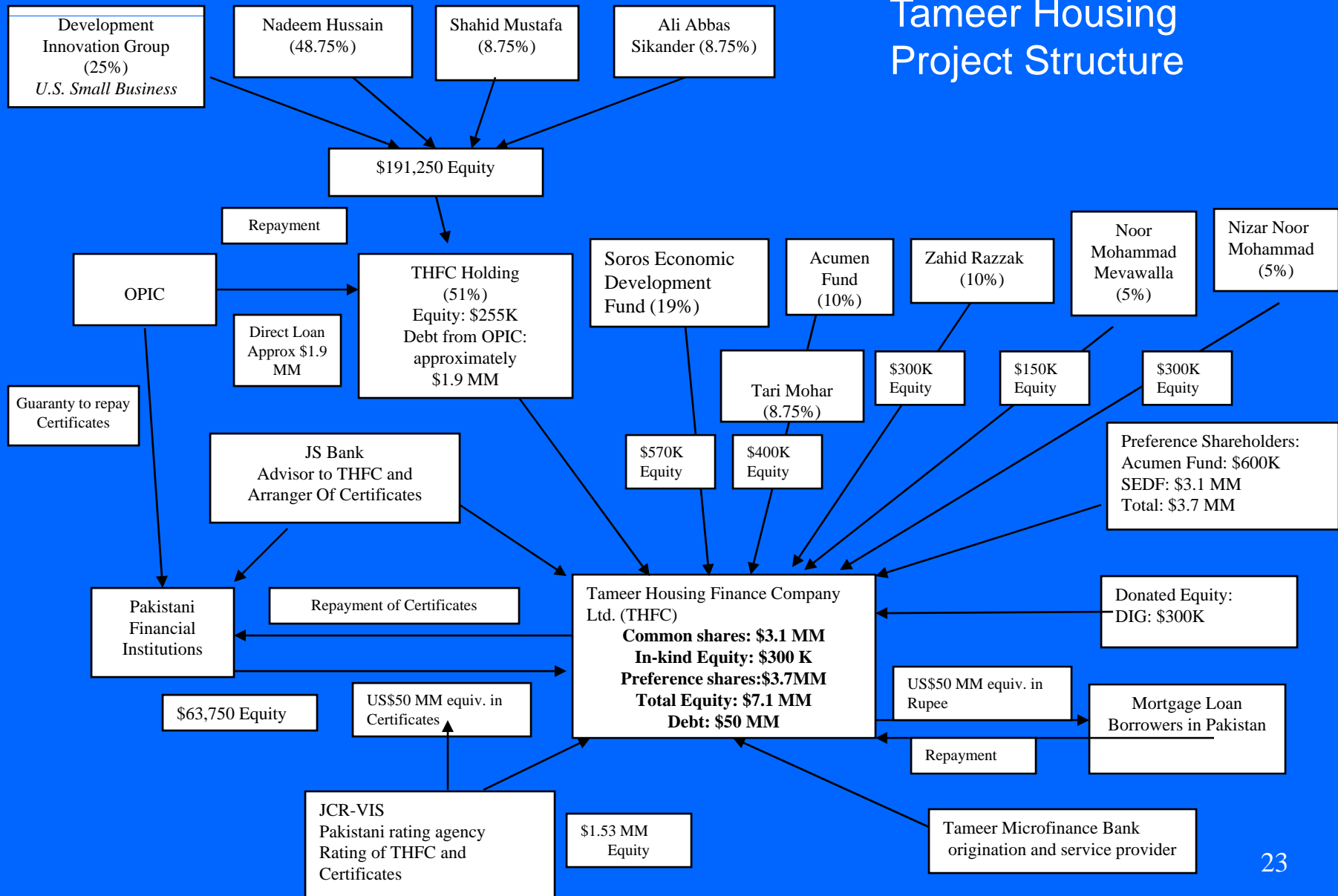
# Branch Roll Out



# Housing/Mortgage Finance: Pakistan

- **PROJECT:** Tameer Housing Finance Company
- **SPONSORS:** Development Innovation Group, Soros Economic Development Fund, and Acumen Fund and a group of Pakistani citizens
- **DESCRIPTION:** Expand the Pakistani housing sector's capacity for providing credit to an underserved section of the population.
- **DEVELOPMENT IMPACT:** Reduce the 6.2 million unit shortfall in affordable housing in accordance with the Government of Pakistan's National Housing Policy
- **OPIC SUPPORT:** \$52 million guarantee
- **TOTAL PROJECT COSTS:** \$78 million

# Tameer Housing Project Structure



# **Tameer Housing Finance Company Key Terms**

- **THFC will issue up to five \$10mm bonds in local currency in Pakistan to be purchased by local institutional investors**
- **Placement arranged by Jehangir Siddiqui Investment Co**
- **Bonds will be fixed rate for 10 years followed by a price reset provision for another 5 years (fixed) with a total tenor of 15 years**
- **Mortgage style amortization**

# **Tameer Housing Finance Company Key Terms**

- **Bonds guaranteed by OPIC and rated AAA by local rating agency JCR-VIS**
- **Will be longest bond issued in Pakistan by non government entity**
- **Proceeds used for residential mortgage loans**
- **Home values \$3,000 to \$30,000**

# **OPIC- Citibank Pakistan Framework Agreements**

- **Two agreements each for \$75mm**
- **Citibank Pakistan makes loans to Pakistan companies**
- **OPIC and Citi share in the risk and return**
- **Loans in either dollars or rupees**
- **Tenors up to 10 years**
- **6 loans extended totaling \$118mm**

# **OPIC- Citibank Pakistan Framework Agreements**

- **DG Khan: Cement plant northern Pakistan**
- **Lucky Cement: Cement plant northern Pakistan**
- **Pakistan Mobile Communications Ltd: Mobile phone expansion**
- **Orix Leasing: SME leasing company operates nationally**
- **Kashf Foundation: Microfinance company**
- **Engro Vopak Terminal Ltd: Ethylene Storage at Port of Karachi**

# OPIC Insurance

- **Equity Insurance of power plant** **\$23.0mm**
- **Insurance for mobile**
- **power generation** **\$29.8mm**
- **Insurance for water**
- **treatment equipment** **\$4.1mm**
- **NGO services** **\$0.2mm**