foreign policy
in focus
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Overseas Private Investment Corporation

The Overseas Private Investment Corporation (OPIC), a wholly owned government corporation established in 1971, provides taxpayer-backed and taxpayer-funded loans, loan guarantees, and insurance to businesses for investments in "politically risky" countries. In 1995 OPIC sponsored 38 projects in Central and Eastern Europe and the New Independent States of the former Soviet Union, 34 in Latin America, 12 in East Asia, 11 in Africa, 6 in South Asia, and 3 in the Middle East.

Congress mandates that OPIC bolster investments that promote economic development and foster private enterprise and competition in foreign countries. The OPIC program handbook states that the agency considers the "contribution of a proposed project to the economic and social development of the host country" before approving it.

Key Points

- OPIC provides financing to U.S. businesses for investments in "politically risky" countries.
- In an ironic twist of public policy, the Clinton administration and some members of Congress tout OPIC as a major foreign policy tool, believing that OPIC-subsidized companies promote development by providing examples of "real entrepreneurs."

According to Ruth Harkin, OPIC president, "OPIC-backed investments play a vital foreign policy role" because "President Clinton and Secretary of State Christopher have made trade and investment promotion a major priority of foreign policy initiatives." In 1995 a House of Representatives' committee report recommended continued OPIC funding under the foreign aid budget, arguing that "genuine and sustainable development would be promoted far faster by the [resulting] example and investment of real entrepreneurs." Critics of OPIC point to the irony of the U.S. government promoting private-led development with public subsidies. For this and a wide variety of other reasons, a broad coalition has come together to oppose continued congressional authorization of OPIC activities.

OPIC offers up to $400 million in combined support to a single project—$200 million in financing and $200 million in insurance. Financing is available for new ventures and for the expansion or modernization of existing, successful operations. Loan guarantees usually go to large projects and vary in size from $10 million to $200 million. OPIC provides direct loans for projects involving small businesses and cooperatives. The agency also insures against: (1) currency inconvertibility—the deterioration in an investor's ability to convert profits, debt service, and other remittances from local currency into U.S. dollars and to transfer those dollars out of the host country; (2) expropriation—the loss of an investment due to expropriation, nationalization, or confiscation by a foreign government; and, (3) political violence—loss of assets or income due to war, revolution, insurrection or politically motivated civil strife, terrorism, or sabotage.

In the mid-1980s OPIC began to participate in funds that purchase shares of ownership in overseas investments. It has helped launch more than twenty such funds, including the Poland Partners Fund and the Africa Growth Fund, to provide capital for investments in low-income countries and former nonmarket economies. Private managers establish and direct these funds, which are capitalized by private investors and OPIC-guaranteed loans. As part of its effort to promote U.S. investment abroad, OPIC holds seminars and conferences to explain its services and encourage U.S. companies to invest overseas. OPIC escorts corporate executives on foreign investment missions to meet business leaders, government officials, and potential joint-venture partners.

According to OPIC, the agency supports $84 billion of investments in 140 countries and has helped to generate $43 billion in U.S. exports, thereby creating about 200,000 U.S. jobs. The agency is mostly self-funded, although Congress sometimes appropriates foreign aid funds for specific projects, such as special programs that provide financial backing for U.S. investment in the former Soviet Union. Sixty percent of OPIC's 1995 revenue came from interest on its U.S. treasury securities; OPIC's net income would drop by more than 80% if this interest on Treasury securities were excluded.

In 1995 the agency had pending requests for compensation of $13.7 million in insurance claims, and it estimated that $14.6 million of its loans wouldn't be repaid. In the event that borrowers default on loans or insurance claims are filed, the risk is borne by the U.S. government—and ultimately the U.S. taxpayers.

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Contrary to OPIC's mandate to promote development, the agency finances companies whose sales may exceed the gross national product of many nations. Because of their economic clout, these firms can exert major influence in the "developing" countries and in the transition states of the former Soviet bloc where OPIC-financed and OPIC-insured projects are focused.

Foreign investors are often criticized for failing to compensate nations fairly for extracted natural resources and for undermining local economic development initiatives. In many cases, foreign governments and workers also fear and detest the mobility and flexibility of transnational corporations that enable these firms to pit nations against each other to obtain favorable business deals.

According to its program handbook, the agency must reject projects that would, in OPIC's judgment, have an "unreasonable or major adverse impact on the environment." Yet OPIC's environmental impact evaluations, like other aspects of its projects, are at times shrouded in secrecy. OPIC is being sued for failing to comply with a Freedom of Information Act (FOIA) request for documents related to insurance offered to Freeport-McMoran's gold-mining project in Indonesia, which has been the target of complaints by environmental activists. Claiming "business confidentiality," OPIC has also repeatedly denied FOIA requests for full documentation on the environmental impact of proposed logging and mining ventures in Russia.

The Freeport mining project, which has benefited from $100 million in OPIC insurance, creates as much as 120,000 tons of waste materials daily, which are then dumped untreated into a nearby river and valley. International publicity about this environmental scandal forced OPIC to cancel its insurance in 1995. But the company's well-connected friends—including Sen. John Breaux (D-LA) and Rep. Billy Tauzin (R-LA) (both of whom have received contributions from Freeport and its directors) and former Secretary of State Henry Kissinger (who sits on the company's board and whose firm receives a retainer fee from Freeport)—rallied to Freeport's defense, and the insurance was reinstated. As the international campaign targeting the mine's environmental impact continued, Freeport decided to sever its ties with OPIC. Aside from highlighting the importance of political connections, the Freeport case also points to the need for independent environmental evaluations of OPIC projects.

Political connections often count more than impact assessments in OPIC financing and insurance decisions. In 1984 U.S. officials at the embassy in Costa Rica together with an associate of Oliver North intervened to advocate that OPIC loan John Hull $375,000 to set up a factory in Costa Rica. Apparently, Hull simply absconded with this government-backed loan. His business partner claimed that he never saw the funds. No equipment for the new factory was ever purchased, and Hull made only one interest payment before the loan lapsed into default. John Hull was later exposed as a CIA operative and a central figure in the Iran-contra scandal.

OPIC's new dealings with risky venture-capital funds highlight some of the pitfalls of U.S. government underwriting of OPIC. In some cases, such as the Africa Growth Fund, which was established in 1987 to finance investment in sub-Saharan Africa, OPIC is facilitating large profit-taking. Private investors in this venture-capital fund have enjoyed 140% return. OPIC receives only modest fees for guaranteeing the nearly $3 billion in aggregate venture funds.

Although Congress requires OPIC to screen out projects that may adversely affect U.S. employment, OPIC does provide financing and insurance to companies whose overseas investments result in U.S. job loss. OPIC insured Kimberly-Clark in 1994, the same year that the Department of Labor certified some 600 of the company's former U.S. employees as eligible to receive trade-adjustment assistance (including cash and retraining) because of increasing imports from the company's overseas plants. Similarly, 100 Levi Strauss employees were certified as eligible for the same federal program, which provides assistance to workers adversely affected by increased imports. The previous year Levi Strauss received almost $2 million in OPIC insurance for investment in overseas production.

Some OPIC beneficiaries receive financing and insurance, even though these companies have committed crimes and misdeeds. Magma Copper Company, for example, obtained $200 million in OPIC insurance for its copper mine in Peru just one year after the company had reached an agreement with the U.S. Mine Safety and Health Administration to pay a $1.55 million penalty. The mine safety agency had cited the copper transnational for 45 violations of federal mine safety standards, including 23 that lead to the collapse of a U.S. mine, killing four workers.

OPIC's corporate welfare makes a mockery of recent changes in U.S. programs for truly needy children and families. Lifetime welfare assistance for individuals is now limited to five years, while OPIC loans offer maturities of more than fifteen years.

Recent welfare changes prohibit most legal immigrants who have not become U.S. citizens from receiving Supplemental Security Income or food stamp benefits. Yet foreign investors may own up to 75% of the equity in overseas projects receiving OPIC financing.

Key Problems

- OPIC-subsidized companies may dominate the economic, political, and cultural environments of countries where they invest and in some cases committed crimes and misdeeds.
- OPIC investments may harm the environment of host countries and destroy U.S. jobs, while lavish subsidies for wealthy corporations makes a mockery of recent changes in programs for truly needy children and families.
- OPIC loans and insurance programs create private gains for the politically connected and potentially huge public losses for the U.S. taxpayers.

In July 1996 Representative Toby Roth (R-WI) introduced a bill that would have more than doubled OPIC's financing authority, from $9.5 billion to $20 billion, and increased OPIC's insurance authority from $13.5 billion to $25 billion. A bipartisan coalition supported by nonprofit organizations—ranging from Essential Information's progressive Corporate Welfare Project to the libertarian Cato Institute—united to fight the proposed increases.

This coalition came together for diverse reasons. Some were concerned about OPIC's impact on the environment and employment and about its obvious contradiction relative to recent reductions in welfare programs for needy individuals. "Contract with America" Republicans and libertarians wanted to downsize government and reduce the federal deficit. All sought to reduce taxpayer risks by eliminating OPIC.

In one of the few victories against corporate subsidies, this strange coalition was able to generate 260 votes against the bill—almost twice the number needed. The stunned OPIC proponents, including congressional members and Clinton administration officials, scrambled to find a way to get the votes to at least ensure OPIC's survival.

In the waning hours of the session, with members eager to adjourn and return home to campaign for the elections, OPIC reauthorization was dumped into an omnibus budget bill and passed. OPIC's funding authority, however, remains at current levels, although OPIC's ability to provide insurance has increased because Congress eliminated the separate aggregate ceilings for insurance and financing. OPIC had been near its insurance ceiling, but had only used about half of its financing authority. OPIC opponents plan to continue the fight in 1997 to eliminate OPIC.

Key Recommendations

- OPIC should be eliminated.
- The private sector, not a U.S. government corporation, should provide the lending and insurance that foreign investors need.
- If OPIC survives, beneficiary companies should be required to follow codes of conduct, pay higher fees and interest, and give full information to the public.

Renew OPIC with Strictly Enforced Requirements

If OPIC survives, strictly enforced operating requirements should be imposed. OPIC-subsidized companies should be required to act as good, global corporate citizens by agreeing to follow codes of conduct. Principles for Global Corporate Responsibility have been established by the Ecumenical Committee for Corporate Responsibility in Britain, the Taskforce on the Churches and Corporate Responsibility in Canada, and the Interfaith Center for Corporate Responsibility in New York.

OPIC transfers to the U.S. Treasury should be increased by raising the fees and interest collected from business beneficiaries. Currently, private investors in OPIC-backed funds are generating returns greater than 100%, while OPIC receives fees of less than 10%. The current system allows private insurance and finance companies to cherry pick, leaving the riskier investments to the subsidized OPIC operations.

OPIC and recipients of its loans, loan guarantees, and insurance must not be permitted to hide behind claims of business confidentiality. Full transparency of OPIC activities should be mandated to ensure accountability of the agency and its business beneficiaries.

Eliminate OPIC

The arguments for eliminating OPIC are numerous:

- OPIC provides financing and insurance subsidies for U.S. corporations that frequently dominate host country economies and that, in some cases, have committed crimes and misdeeds.
- OPIC beneficiaries may generate huge private gains at considerable taxpayer risk.
- OPIC-subsidized investments may harm host country environments and eliminate U.S. jobs.
- OPIC welfare for wealthy corporations makes a mockery of cuts in programs for poor people.
- Subsidized public financing for private U.S. businesses is hypocritical in light of Washington's championing of global "free trade" agreements and the privatization of foreign economies.

If, as OPIC president Ruth Harkin claimed during 1996 House budget hearings, "there is strong demand for OPIC [-like] services in many regions of the world," private lenders, guarantors, and insurers will surely move in quickly and willingly to provide these services.

Ironically, while OPIC may be near death in Congress, U.S. taxpayers are now providing funds for yet another insurer of foreign investments. A new arm of the World Bank—the Multinational Investment Guarantee Agency (MIGA)—provides long-term, noncommercial risk insurance to foreign investors.

Written by Janice C. Shields, Consumer Research Director of U.S. Public Interest Research Group, and Corporate Welfare Project Coordinator of Essential Information.

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Editors
Martha Honey (IPS)
Tom Barry (IRC)

Production
Grant Moser

Communications Director
Erik Leaver (IRC)

Orders and subscription information:
Mail: PO Box 4506
Albuquerque, New Mexico 87196-4506
Phone: (505) 842-8288
Fax: (505) 246-1601
Email: resourcectr@igc.apc.org

Editorial inquiries and information:

IRC Editor
Phone: (505) 388-0208
Fax: (505) 388-0619
Email: resourcectr@igc.apc.org

IPS Editor
Phone: (202) 234-9382/3
Fax: (202)387-7915
Email: ipsps@igc.apc.org

Website: http://www.zianet.com/infocus

sources for more information

Organizations

Overseas Private Investment Corp.
1100 New York Avenue NW
Washington, DC 20527
Toll Free: (800) 872-8723
OPIC InfoLine: (202) 336-8799
OPIC FactsLine: (202) 336-8700
Website: http://www.opic.gov/home.htm

Essential Information
PO Box 19367
Washington, DC 20036
Voice: (202) 387-8034
Fax: (202) 234-5176
Website: http://www.essential.org
Contact: Janice Shields

The Cato Institute
1000 Massachusetts Avenue NW
Washington, DC 20001
Voice: (202) 842-0200
Fax: (202) 842-3490
Email: cato@cato.org
Contact: Steve Moore

The Competitive Enterprise Institute
1001 Connecticut Avenue NW, Ste. 1250
Washington, DC 20036
Voice: (202) 331-1010
Fax: (202) 331-0640
Email: foinfo@cei.org
Contact: Jim Sheehan

Community Nutrition Institute
910 17th Street NW, #413
Washington, DC 20006
Voice:(202) 776-0595
Fax: (202) 776-0599
Email: cni@digex.net

Friends of the Earth
1025 Vermont Avenue NW
Washington, DC 20005
Voice: (202) 783-7400
Fax: (202) 783-0444
Email: foedc@igc.apc.org
Contact: Courtney Cuff

Progressive Caucus
213 Cannon House Office Building
Washington, DC 20515-4501
Voice: (202) 225-4115
Fax: (202) 225-6790
Email: bernie@hr.house.gov
Contact: Bill Goold

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