



Overseas Private Investment Corporation

By Janice C. Shields

The Overseas Private Investment Corporation (OPIC), a wholly owned government corporation established in 1971, provides taxpayer-backed loans, loan guarantees, and insurance to U.S. businesses for investments in “politically risky” countries. According to OPIC, since 1971 the agency has supported \$121 billion in overseas investments and has helped to generate \$58 billion in U.S. exports, thereby creating more than 237,000 U.S. jobs. (OPIC doesn’t discuss lost U.S. jobs, increased U.S. imports, and cuts in U.S. exports as a result of the agency’s support for foreign, rather than domestic, investment by U.S. companies.) In 1998 alone, OPIC sponsored 47 projects in more than 30 countries. More than half of OPIC’s portfolio is in the power and financial services sectors, and almost two-thirds is in the Caribbean, Central and South American, and Asia/Pacific regions.

OPIC offers up to \$400 million in combined support for 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 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. According to the OPIC program handbook, the agency is supposed to consider what contribution a proposed project might make to the economic and social development of the host country before approving loans or loan guarantees.

the loss of assets or income due to war, revolution, insurrection, or politically motivated civil strife, terrorism, or sabotage. As part of its efforts to promote foreign investment by U.S. companies, OPIC holds seminars and conferences to explain its services. It also escorts corporate executives on foreign investment missions to meet business leaders, government officials, and potential joint-venture partners.

In the mid-1980s, OPIC began to establish private funds that purchase shares of ownership in overseas investments. By 1998, OPIC had launched almost 30 of these funds, such as the Poland Partners Fund and Aqua International Partners, to provide capital for investments in low-income countries and former non-market economies. OPIC selects the fund managers and provides long-term loans and loan guarantees that supplement a fund’s privately raised equity.

OPIC claims to be a “self-sustaining” agency that generates revenue by selling its financing and insurance services to U.S. businesses. In 1998, 53 percent of OPIC’s revenues came from interest on its U.S. Treasury securities. Additionally, Congress sometimes appropriates funds from the foreign aid budget for specific projects, such as special programs that provide financial backing for U.S. investment in the former Soviet Union. If borrowers default on loans or if insurance claims are filed, the risk ultimately is borne by the U.S. government and taxpayers. As of September 1998, OPIC estimated that its noncollectable loans would total more than \$7 million, that its exposure to credit risk under its loan guarantees was \$6.3 billion, and that its exposure to insurance claims was, conservatively, \$6.9 billion.

According to OPIC’s President and Chief Executive Officer, George Muñoz, in his fiscal year 2000 budget request, “[OPIC’s] budget will provide OPIC a solid base to help America compete globally while mobilizing private sector investment in support of U.S. foreign policy goals.” Similarly, OPIC’s former President Ruth Harkin had testified that “OPIC-backed investments play a vital foreign policy role,” because the Clinton administration has “made trade and investment promotion a major priority of foreign policy initiatives.”

Key Points

- As a tool of U.S. foreign policy, OPIC provides loans, loan guarantees, and insurance for U.S. companies investing overseas.
- OPIC has helped launch and finance private investment funds that purchase ownership in foreign companies.
- OPIC estimates that it (and ultimately U.S. taxpayers) has billions of dollars in exposure to losses on defaulted loans and insurance claims.

The agency also sells insurance 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) the loss of an investment due to expropriation, nationalization, or confiscation by a foreign government; and (3)

Critics on both the left and the right, from the Corporate Welfare Project and Friends of the Earth to the Cato Institute and the Heritage Foundation, have supported elimination of OPIC as a government agency, albeit for different reasons. Conservatives want to cut OPIC as part of their campaign to downsize government. Progressives cite the hypocrisy of reducing welfare for the poor while continuing welfare programs for wealthy corporations.

Clinton's welfare "reform" limits the number of years that the needy poor can receive payments, yet some prosperous corporations, such as Citibank, obtain OPIC insurance and financing year after year. Poor families must prove financial need to receive assistance, but wealthy companies, such as Enron and Pepsi-Cola, feed at the OPIC trough. Convicted criminals are excluded from some assistance programs, but OPIC doles out benefits to companies that have also committed crimes or misdeeds. Magma Copper Company, for example, obtained \$200 million in OPIC insurance for its copper mine in Peru just after the company had paid a \$1.55 million penalty for violations of federal mine-safety standards that had led to the collapse of a U.S. mine, killing four workers.

Individuals receiving government payments must find jobs, yet corporate beneficiaries of government programs often are not required to create jobs. OPIC may even help companies export jobs. Levi Strauss, for example, recently announced plans to shutter its U.S. plants and lay off thousands of workers while obtaining more than \$29 million in OPIC insurance to set up garment manufacturing facilities in Turkey. The year before, Levi Strauss had received almost \$2 million in OPIC insurance for investment in overseas production. Kimberly-Clark's former workers collected trade adjustment assistance when their OPIC-insured employer increased imports into the U.S. In response to such cases, Congress requires OPIC to screen out projects that may adversely affect U.S. employment. The Congressional Research Service says it cannot substantiate OPIC's claims of U.S. job creation.

OPIC's program handbook requires the agency to reject support for projects that would have an "unreasonable or major adverse impact on the environment." Yet OPIC has come under attack by environmentalists for insuring companies that pollute their host countries. For example, OPIC provided \$100 million in insurance coverage for Louisiana-based Freeport-McMoran's gold-mining project in Indonesia, even though the project created as much as 120,000 tons of waste materials daily, dumping much into a nearby river and valley.

International publicity forced OPIC to cancel the 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 had received political contributions from Freeport and its directors) and former Secretary of State Henry Kissinger (who sits on the company's board, and whose firm received 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. But another partially U.S.-taxpayer-funded organization, the World Bank's Multinational Investment Guarantee Agency (MIGA), is stepping in to provide risk insurance to international investors.

OPIC has drafted an environmental handbook and in January 1997 began publicizing applications for OPIC assistance for what the agency classifies as "Category A Projects" (for which an Environmental Impact Assessment Audit will be required) and providing a 60-day comment period. However, OPIC classifies seemingly few of the projects as "Category A."

OPIC has long been susceptible to political influence. In 1984, U.S. embassy officials in Costa Rica and an associate of Oliver North intervened to advocate that OPIC loan John Hull \$375,000 to set up a factory in Costa Rica. Hull, a CIA asset, never repaid the loan. The primary investor and manager of CEENIS—a friend and campaign supporter of President Clinton—received \$160 million in OPIC financing in 1995. And Senator Richard Lugar's (R-IN) son is the contact person for OPIC's South America Private Equity Growth Fund.

Ironically, some of OPIC's funds have generated returns of 140% for their private investors even though, according to Mildred Callear, OPIC's former acting president, "the idea behind the funds is to replace foreign aid." Replacing foreign aid, intended to meet the basic needs of the poorest people in developing and newly independent countries, with funds directed at entrepreneurs puts decisions in the hands of narrow local and foreign interests. For example, Coca-Cola is an investor in OPIC's Africa Growth Fund; one of that fund's early investments was in a bottling plant in Kenya.

Key Problems

- OPIC provides "Aid for Dependent Corporations," while assistance for needy families is being cut.
 - OPIC-financed and -insured foreign investments by U.S. companies shift U.S. jobs overseas and pollute host countries' environments.
 - U.S. companies and individuals with political connections can reap personal gains from OPIC's programs.
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Private companies, not the federal government, should sell insurance and make loans and loan guarantees for overseas investments. If the federal government continues to provide these services, restrictions should apply.

Eliminate OPIC

The left and right, conservatives, libertarians, and progressives support privatizing OPIC for diverse reasons. Some are concerned about OPIC's obvious contradictions relative to "reforms" in the U.S. welfare system for

needy individuals or the agency's impact on jobs and the environment. Others want to downsize government, sever the business/politics connection, and reduce potential taxpayer risks from OPIC loan defaults and insurance claims. OPIC's programs even seem to contradict government policy, as illustrated in a House of Representatives' committee report arguing that "genuine and sustainable development would be promoted far faster by the example and investment of real entrepreneurs." The federal government's promo-

tion of private-led development with public subsidies and programs—such as OPIC—is hypocritical.

Business leaders themselves should support the privatization of OPIC. Congress places a ceiling on the aggregate dollar amount of OPIC's loans, loan guarantees, and insurance policies, thereby limiting the number of companies that can obtain OPIC's services. This favors a handful of "corporate welfare" recipients over businesses that must obtain financing and insurance that isn't taxpayer-backed. Moreover, OPIC doesn't provide financing and insurance in all countries. For example, projects in China and Mexico currently cannot receive OPIC benefits. If companies select their investment locations based on the availability of OPIC services, they may not make optimal decisions.

Businesses, such as Freeport-McMoran, that obtain OPIC support expose themselves to public scrutiny and ridicule, sabotaging the companies' public relations efforts. Corporations with OPIC financing and insurance may also be accused of contradicting their public policy campaigns. Companies constantly beg government to get off their backs by reducing regulations and cutting taxes, yet many continue to collect and even demand more corporate welfare, including OPIC services. Private insurance firms, lenders, and investment funds are then forced to compete against the government's taxpayer-backed programs. Already though, some companies are rejecting government support programs. Fifty technology companies have declared their "independence from the corporate welfare state" and have promised to endorse cuts in these programs.

To privatize OPIC, the government should sell its existing portfolio of loans, loan guarantees, and insurance

on the open market. Recently, a consortium lead by Exporters Insurance proposed to the administration and Congress a plan for privatizing most of OPIC's outstanding risk insurance policies. A 1995 report on the feasibility of privatizing OPIC, prepared at the request of Congress, identified several other insurance companies offering policies similar to OPIC's.

Renew OPIC with Strict Requirements

If OPIC survives, strictly enforced operating requirements should be imposed. Companies and funds benefiting from OPIC financing and insurance should be required to follow codes of conduct formulated by private groups and multinational entities such as the United Nations. For example, organizations in the U.S., Canada, and Great Britain have established and disseminated Principles for Global Corporate Responsibility. These principles require that companies set forth standards governing corporate behavior and advertising, and that they protect the environment, workers, and children.

OPIC transfers to the U.S. Treasury should be increased by raising the fees and interest collected from business beneficiaries. Private investors in OPIC-backed funds are generating huge returns while OPIC collects fixed fees of less than 10 percent. In 1998, OPIC paid no dividends to the U.S. Treasury, compared to \$43 million in 1997, even though OPIC generated income of almost \$139 million in 1998.

OPIC and recipients of loans, loan guarantees, and insurance must not be permitted to hide behind claims of business confidentiality. Even the new draft environmental guidelines facilitate only communication of "non-business confidential information regarding the environmental impacts of major projects under consideration for OPIC insurance, finance or investment." Full transparency of OPIC activities should be mandated to ensure the accountability of both the agency and its business beneficiaries.

In 1996, a broad coalition of groups from the left to the right joined with Rep. Kasich (R-OH), chair of the House Budget Committee, and Rep. Andrews (D-NJ) to fight a bill introduced by Rep. Roth (R-WI) that would have doubled the aggregate amount of financing and insurance that OPIC could provide. In one of the few victories against corporate subsidies, this strange coalition was able to generate almost twice the votes needed to defeat the bill. Stunned OPIC proponents then scrambled to find the votes needed just to ensure OPIC's survival. In the waning hours of the congressional session, with members eager to return home to campaign, OPIC's one-year reauthorization (at the existing dollar level) was dumped into an omnibus bill and passed. By 1997, the coalition was struggling to stay together, but OPIC's proponents had regrouped, not to be blind-sided gain. Now, the left-right coalition has fallen apart, and OPIC will likely be renewed for its requested four years in 1999.

Janice Shields is coordinator of the Corporate Welfare Project and TaxWatch, projects of the Institute for Business Research.

Key Recommendations

- Organizations from the left to the right believe that OPIC's operations should be privatized.
 - If OPIC continues as a federal agency, its operations must be more transparent and beneficiary companies must follow codes of conduct.
 - Terminating or improving OPIC's operations is difficult due to the vested interests of OPIC beneficiaries and the agency itself.
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Sources for More Information

Organizations

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