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An Introduction To . . .

THE OVERSEAS PRIVATE INVESTMENT CORPORATION

(OPIC)

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THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

The Foreign Assistance Act of 1969 (PL 91-175, Part I, Title IV) creates the Overseas Private Investment Corporation (OPIC) as a federal agency under the policy guidance of the Secretary of State --

> "... to mobilize and facilitate the participation of United States private capital and skills in the economic and social progress of less developed friendly countries and areas, thereby complementing the development assistance objectives of the United States."

Establishment of the new corporation is expected by the beginning of the new fiscal year (July 1,1970).

With a joint public-private board of directors, OPIC will reorganize and operate selectively on a business basis U.S. Government incentives to the investment of American private capital and know-how in projects which contribute to development.

ROLE & OBJECTIVES

OPIC is designed as part of a new emphasis on private enterprise and initiative in the total U.S. overseas development effort. Its role and objectives are:

- To further U.S. foreign policy by "undertaking... to encourage and support only those private investments in less developed friendly countries and areas which" - as well as being welcome - "are sensitive and responsive to the special needs and requirements of their economies, and which contribute to the social and economic development of their people."

This means that OPIC will assist projects which will be commercially viable and yield adequate returns to their investors, and also benefit their host countries in terms of increased national income, higher levels of employment, improved management and technology, increased earnings or savings of foreign exchange.

- To provide a more responsive corporate structure through which U.S. private citizens can participate in policy-making, and which will generate a broader understanding in the American business community of the needs and opportunities for private investors in the developing nations.

By reflecting U.S. private business experience in its direction and management, OPIC will provide a more familiar basis for dealing with private business investment in developing countries. By building investor confidence and credibility with the business community, OPIC is expected to encourage greater participation of private resources in the development process.

- To put the management of investment incentives on a more businesslike basis, increasing their efficiency, effectiveness, and adaptability to specific project needs, thereby expanding their use by investors.

OPIC programs meet long-established Bureau of the Budget criteria for use of a corporate form of government organization in that they: are predominantly of a business nature; are revenue-producing and potentially financially self-sustaining; involve a large number of business-type transactions with the public; and require greater flexibility than the customary government agency operation ordinarily permits.

The Corporation can enter into commercial contracts, sue and be sued, develop an experienced, business-oriented staff and conduct its transactions in line with accepted business practices.

OPIC will not immediately generate large new dollar outflows of private capital investment. OPIC must take into account, in consultation with the Treasury, the balance-of-payments cost to the U.S. of its financial assistance. Except for local Latin American procurement, OPIC's financial assistance will continue, under present policy, to be substantially tied to purchases in the U.S. OPIC is expected to have a beneficial impact on U.S. exports, through generation of sales of U.S. goods and services recognized as an important concomitant of private investment abroad.

PROGRAMS

OPIC will take over and build upon the functions of A.I.D.'s Office of Private Resources, including the following programs:

Pre-Investment Assistance, in the form of information services and incentive financing, to help U.S. companies identify, evaluate and develop their own project opportunities.

In addition to providing general country information, investment promotion efforts have increasingly been concentrated on inducing the investor to conduct his own project reconnaissance, investigation and analysis. Repeated experimentation with investment surveys conducted by third parties have produced minimal returns. The investment survey program has encouraged 340 surveys since 1962 at a cost to the U.S. Government of $1.1 million, resulting in 46 positive decisions to invest approximately $98 million - a ratio of $89.00 of investment per $1.00 of cost to the U.S. Government.

Recent pre-investment assistance has featured experimental programs of partial financial support for feasibility studies and project development research in the fields of agribusiness, high-protein nutritional foods, and food storage, distribution and marketing.

In 1969, A.I.D. entered into a funding agreement with the private Agribusiness Council (ABC) to screen and financially participate with U.S. companies which look at opportunities for investment in food processing, distribution and marketing. Three U.S. companies have signed agreements with ABC to explore investment opportunities, and for calendar year 1970 ABC is programming 15 reconnaissance surveys and 10 complete feasibility studies by interested companies.

A.I.D. has encouraged American firms to investigate opportunities for production and marketing of high protein foods in the developing countries, by sharing with U.S. companies market survey and product testing costs for developing new high protein foods. The companies themselves pay for product development costs.

Fourteen (14) agreements have been concluded with U.S. firms for studies in seven developing countries, at a cost to A.I.D. of $750,000. While most of the studies have not yet been completed, current indications are that the firms have spent about $1.5 million of their own money on the surveys. To date, two positive decisions have been made to invest in Brazil and India. Two decisions not to invest have been made.

Investment Insurance, to minimize risks of currency inconvertibility, expropriation, war, revolution or insurrection - risks which may arise from political developments in developing countries and which particularly discourage otherwise interested investors from seeking opportunities in less developed countries (LDCs).

This program has involved some 3,500 coverages totaling $7.3 billion. Approximately 570 projects in the last three years have been insured under some 1,538 insurance coverages. The 458 coverages in CY 1969 totaled $1.25 billion of insurance, which protected U.S. private investment of about $540 million. The U.S. insured investment attracts an approximately equal amount of investment from other countries, mobilizing a current total of about $1 billion in new investment annually. Calculated at the rate of $2.00 of sales for each dollar of investment (a National Industrial Conference Board formula), this new investment generates an annual increase in sales volume of $2 billion. It is estimated that jobs are created at the rate of one for each $7,500 of new capital investment. The total investment of $3.5 billion insured under the program since its beginning in 1948, therefore, would have generated some 470,000 jobs, now adding 72,000 new jobs each year.

Investors pay premiums for their insurance contracts. Premiums paid each year have increased with the coverage written, and in CY 1969 insurance income amounted to $22.1 million. As of December 31, 1969, a total of $90.1 million in premiums had been collected. Losses paid have been only $3.5 million, but this does not yet reflect the vastly increased exposure and the losses to be expected on nearly $5 billion of insurance written in the last three years.

The $500 million of U.S. investment now insured per year represents approximately one-third of the total annual U.S. investment flow to less developed countries, at the current rate. Since as a matter of policy, oil exploration, concession agreements and investments in subsurface assets are not insured, and since these investments in petroleum constitute half of the total U.S. investment in LDCs, roughly two-thirds of the total new U.S. investment in other than petroleum projects is insured.

<u>Investment Finance</u>, primarily through guaranties of private loan or equity investments, and direct loans of dollars or local foreign currencies.

The loan guaranty program is comparatively new and only recently has resulted in significant returns. A.I.D. has authorized guaranties of $200 million of U.S. investment, almost entirely in the form of loan guaranties, to 27 projects. They have mobilized a total investment, both U.S. and foreign, of $714 million and have generated, on the same formula as outlined above, sales volume of $1.4 billion and 95,200 jobs. This program has almost entirely superseded direct A.I.D. dollar development loans to private industrial borrowers (for new OPIC authorities, see below).

Except in India availability of Cooley loan (local currency) funds is sharply declining. Cooley loans of $40 million to $50 million a year to 20-25 projects mobilize a total investment, both U.S. and foreign, of approximately $150 million per year. Calculated on the same basis as outlined above for insurance, this generates $300 million of gross sales volume and 20,000 jobs. Through FY 1969, a total of 448 Cooley loans, totaling a local currency equivalent of $450 million, have been authorized.

Technical Assistance, consisting of financial or advisory support for private programs providing technical, professional or managerial know-how to local private organizations in developing countries, with funds transferred to OPIC from A.I.D. or other public or private sources.

NEW AUTHORITIES & RESERVES

OPIC's new authorities consist of:

- Authority to "initiate and support through financial participation, incentive grant, or otherwise, and on such terms and conditions as the Corporation may determine, the identification, assessment, surveying and promotion of private investment opportunities, utilizing wherever feasible and effective the facilities of private organizations or private investors."

- A five-year insurance authority of $7.5 billion, calculated in terms of maximum contingent liability, including new authority to enter into multilateral insurance arrangements covering multinational projects proportionate to the U.S. investment share.

- A five-year guaranty authority of $750 million to cover U.S. private loans (up to 75% of the total investment in project from all sources, and thus up to 100% of the U.S. loan), and up to 75% of equity investments.

- A corporate capitalization of $20 million per year for each of the first two years of OPIC operations, to be used as a revolving Direct Investment Fund to make dollar loans and to purchase convertible debentures and other debt instruments.

- U.S.-owned local currencies in amounts to be determined annually. In financing projects in countries where these sources of local currencies are not available or adequate, the Corporation can, with the concurrence of the Treasury, permit the use of a portion of its dollar financing, including loans and guaranty agreements, to cover a reasonable share of local project costs.

- A pilot program guaranty authority of $15 million to cover 25% of private local currency loans to agricultural credit and self-help community development projects in five Latin American countries to be selected.

A portion of existing appropriated and accumulated reserves (approximately $125 million) will be allocated by the OPIC board of directors to separate insurance and guaranty reserves. These will be supplemented by allocations from future net earnings of the Corporation. OPIC has authorization for such Congressional appropriations "as may be necessary to replenish or increase" its reserves. Guaranty reserves must be maintained at a ratio of 25% of outstanding liabilities.

All insurance and guaranties are obligations of the U.S. and its full faith and credit is pledged for the full payment and performance of such obligations.

OPERATING POLICIES

OPIC will actively seek qualified prospective investors, emphasizing programs of project identification and promotion to help investors develop opportunities.

It will foster project-generating "second-tier" intermediate financial and investment institutions to promote and finance suitable projects.

The Corporation will set up special facilities to assist small investors.

OPIC will conduct its financial operations on a self-sustaining basis. It will consider the economic and financial soundness of projects to be assisted, and take into account the availability of financing on appropriate terms from other sources.

It will finance administrative expenses and costs of investment promotion activities out of earnings of other accounts (i.e., interest and fees charged for insurance, guaranties, promotional and other services).

The Corporation will attempt to further broaden private participation in development and to revolve its funds by selling investments in its portfolio to private investors.

OPIC is precluded from making direct equity investments, but may purchase convertible debentures which it may sell to private investors for conversion to equity stock.

The Corporation is precluded from making direct loans to, or financing the survey of, extractive projects. No more than 10% of OPIC's insurance or guaranties may be issued to a single investor.

ORGANIZATION & COORDINATION

OPIC will be governed by a joint public-private board of eleven directors appointed by the President of the United States with the advice and consent of the Senate. A majority (six) of the directors will be citizens with international experience appointed from private life, including one each experienced in the fields of small business, organized labor, and cooperatives. The chairman of the board will be the Administrator of A.I.D., ex officio. OPIC's president and chief executive officer, whose private business experience will be taken into account, will serve on the board. The remaining three Government directors will be Presidential appointees designated from departments and agencies charged with U.S. foreign economic policy and program responsibilities.

Through the composition of its board of directors, OPIC policies will be coordinated with A.I.D. and other agencies concerned with foreign economic policies and programs. OPIC will concentrate on longer-range projects involving private investment in the developing countries and thus not duplicate or conflict with the export promotion and financing activities of the Export-Import Bank or the Department of Commerce. To the extent feasible, it will assist in the formulation of country development plans and programs to ensure that public and private investment projects complement one another.

The Corporation, headquartered in Washington, will develop its own staff, and will make arrangements for use of U.S. embassy and mission staffs overseas. OPIC employees will be subject to Civil Service requirements except for a limited number of officers exempted from the requirements by law.

ORIGINS OF OPIC

OPIC reflects a growing trend toward the use of specialized corporations to promote private investment in the developing countries. Successful examples of the corporate approach include the private multinational Atlantic Development Company for Latin America (ADELA), the World Bank's International Finance Corporation, West Germany's German Development Company and the U.K.'s Commonwealth Development Corporation. (Legislation establishing a Finance Corporation for Developing Countries is pending before the Parliament of the Netherlands).

An earlier proposal by Senator Jacob K. Javits (R-NY) called for a federally-chartered corporation. In March 1968, following extensive hearings, the House Foreign Affairs Subcommittee on Foreign Economic Policy, chaired by Representative Leonard Farbstein (D-NY), also endorsed the corporate concept.

In April 1968, the Congressionally-chartered International Private Investment Advisory Council to A.I.D. (IPIAC) * decided to study this approach to private investment incentive programs. Subsequently, Senator Javits sponsored an amendment to the Foreign Assistance Act of 1968 calling for a Presidential reappraisal of all U.S. foreign assistance programs, with specific analysis and consideration to be given to proposals for a federally-chartered corporation "designed to mobilize and facilitate the use of U.S. private capital and skills in less developed friendly countries and areas."

In December 1968, IPIAC endorsed the proposal and submitted to A.I.D. its recommendations for establishment of such a corporation. OPIC subsequently was specifically endorsed by the Chamber of Commerce of the U.S., the Committee for Economic Development, the National Association of Manufacturers, and the National Foreign Trade Council.

Other advisory groups have supported either the corporate concept or OPIC specifically, including former President Johnson's General Advisory (Perkins) Committee on Foreign Assistance Programs, the National Planning Association, a task force of the National Association of State Universities and Land Grant Colleges, the World Bank's (Pearson) Commission and the Rockefeller task force. This month, President Nixon's (Peterson) Task Force on International Development reported that it "strongly supports" OPIC as "an effective instrument in encouraging U.S. private investment activities in developing countries - both through its guaranty programs and through advising American firms on how to make their investment more acceptable to the host country."

The legislation creating the Overseas Private Investment Corporation was the result of the Administration's analysis and consideration of the IPIAC and related proposals.

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* IPIAC was created as an advisory council to the A.I.D. Administrator by an amendment to the 1966 Foreign Assistance Act, sponsored in the House by Reps. F. Bradford Morse (R-Mass.) and Lester L. Wolff (D-NY), and in the Senate by Sen. Jacob K. Javits (R-NY). Its membership consists of senior officials of six national business organizations: the Chamber of Commerce of the U.S.; the Committee for Economic Development; the National Association of Manufacturers; the National Industrial Conference Board; the National Foreign Trade Council; and the U.S. Council of the International Chamber of Commerce.

This Fact Sheet was prepared by:

Office of Private Resources
Agency for International Development
Washington, D.C. 20523

Under Presidential Determination, this Office of A.I.D. is responsible for administering OPIC programs until the Corporation is established.