



Overseas Private Investment Corporation

Private investment, Public profit

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Introduction

Ever-changing conditions in emerging markets and the risks that these constitute have long troubled investors and businesses in the developed markets that are willing to expand in these foreign markets. The barriers to conduct such ventures are high because of factors ranging from political risks to hardly established communication channels with local businesses, resulting in high initial capital requirements and general aversion from such investments, especially by small and medium businesses. The expectations for high returns from the investors only exacerbate this problem. This situation traps private capital in the developed markets and doesn't promote flow towards the emerging sectors where a multitude of opportunities exist.

To break these barriers, the U.S. government set out to create an institution that would simultaneously target all the facets of above problem. It would have to act as a frontier for foreign policy, establishing communication and cooperation with emerging markets. Also, it would organize funds specifically formed for these markets, easily targeted by private equity investors that wished to allocate capital in such countries, and also provide an umbrella of risk insurance and financing for small and medium businesses that wished to extend their practices abroad in undeveloped markets. Most importantly, the government decided that the subsistence of this institution should not be imposed on taxpayers, who might have not agreed in its formation. In an effort to solve this problem, the U.S. government instituted the Overseas Private Investment Corporation (OPIC).

Background

Established in 1971, OPIC is the U.S. Government's primary development finance institution. Having helped fund more than 4,000 projects that have produced over \$75 billion in U.S. exports and created more than 277,000 American jobs, OPIC presents a strong case for an institution that helps unlock private capital to areas that would otherwise not have the access to it. It manages this with an array of solutions: direct financing, political risk insurance, or by forming funds together with regional development agencies with the purpose of investing in cooperative ventures between American and local businesses. OPIC provides capital to these private equity funds through senior secured loans that are the proceeds of Certificates of Participation (COPs) issued in the U.S. debt capital markets, and collects a small percentage of the returns in the form of one-time and semi-annual fees. Its main sectors of operation are clean and renewable energy infrastructure, critical natural resources and "impact investing".

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OPIC's purpose is two-pronged. On one hand, OPIC is dedicated to solving critical world challenges, by utilizing private capital to invest in U.S. business ventures across more than 150 countries, making available to enterprises debt financing, guarantees, political risk insurance, and support for private equity investment funds. OPIC particularly focuses on American small businesses, warranted by the fact that 80% of the projects subsidized by the agency on an annual basis are attributed to this category of companies.

On the other hand, the institution acts as a vehicle for U.S. foreign policy. OPIC endorses development in world regions, such as the Middle East, Sub-Saharan Africa and Southeast Asia, which have faced periods of turmoil but present promising growth opportunities. Through OPIC's work, U.S. businesses expand on a global level and these regions are thrust into stability and economic opportunity, reducing the risk to U.S. investors and at the same time engendering a positive developmental effect on a macro scale for the foreign countries.

Finally, OPIC's services come at no net cost to American taxpayers. Each year, Congress authorizes the continuation of OPIC, and the Corporation's budget is derived from the premiums, interests and fees generated by its own services, as well its investment in U.S. Treasury securities. By charging market-based fees for its services, not only does the agency not incur additional taxes for Americans, but on the contrary it has also helped reduce the federal budget deficit for the 35th consecutive year in FY2012 by producing a net income of \$272 million. The profits made by OPIC return to the U.S. Treasury, and driven by its successful investments, Congress authorizes each year a part of these profits to be allocated in covering the institution's operating expenses. In FY2012 for instance, Congress authorized \$90 million from OPIC's profits to be used to cover its expenses, a 25% increase from the previous year. According to a publication by the Center for Strategic & International Studies, to this day, the Treasury has accrued over \$5 billion in reserves from OPIC's operations.

Method of Operation

Organization

OPIC is managed through two bodies, the **Executive Staff** and the **Board of Directors**. The former is comprised of 12 members and the latter of 15. The Executive Staff encompasses the 'C' level people of the company and the Vice Presidents of the various divisions within the agency, the most important of which are shown in the above diagram in a purple font.

The Board of Directors has a balanced private-public sector distribution, with 7 members stemming from the private and 8 from the public sector. In order for the BoD to be able to address all of OPIC's goals, at least 2 of the private sector members must be experienced in small businesses, 1 in cooperatives, and 1 must represent organized labor. Government members are the President of OPIC and representatives of trade and international development agencies, as well as of various departments, including the Department of Labor. Buttressing OPIC's federal role, all members of the Board have to be appointed by the President of the United States and accepted by the Senate. The Board meets on a quarterly basis to discuss

policy guidance to OPIC and sanction the Corporation's major investment funds, project finance and insurance projects.

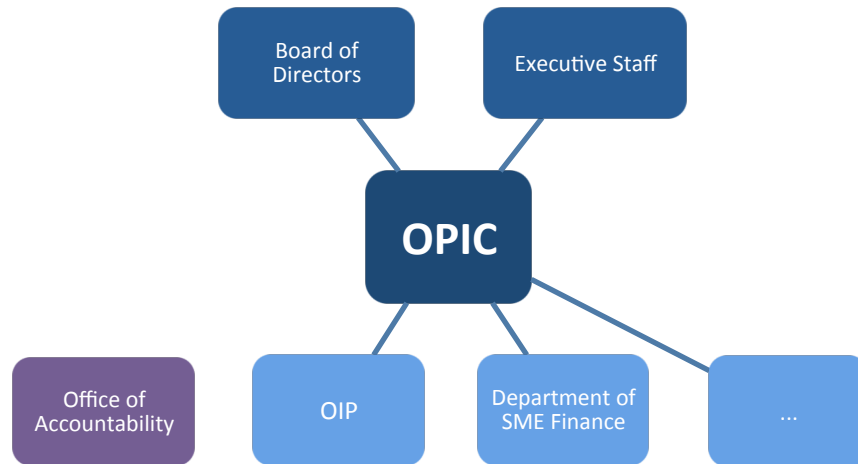


Figure 1 - OPIC Departments

A key department in OPIC is the **Office of Investment Policy (OIP)**. Its role is to apply congressionally mandated and OPIC-supported policies that engender sustainable economic development for all projects undertaken by the institution. These policies, followed in all current and prospective projects, are described in the *OPIC Environmental and Social Policy Statement*, which is provided to investors and the general public. In an endeavor of the Corporation to adhere to its very strict transparency standards, projects with potentially significant environmental or social impact, classified as Category A projects, are disclosed to the public for a period of 2 months for comments that are taken into account during the decision process. In this manner, the environment and human rights are protected, and OPIC discusses the projects with the Department of State before taking a decision.

To ensure that projects will not incur any negative impact to the U.S. economy and also help host countries develop, the OIP conducts for each project an analysis called the *Development Impact Profile (DIP)*. OPIC will not support projects that may cause loss of American jobs. The DIP is included in OPIC's Annual Development Report to Congress. As a method of performance control, all projects that have been ongoing for more than 1 year are required to submit to the OIP a *Self-Monitoring Questionnaire (SMQ)* and also random on-site visits are scheduled for simple projects and more regular visits for important projects.

In essence, the OIP undertakes the economic analysis of projects, monitors the agency's portfolio and reports to Congress and other stakeholders, and promotes policy compliance across the Corporation.

The **Office of Accountability** is an independent office within OPIC reporting solely to its President & CEO. Its main purpose is to evaluate and review complaints about OPIC-associated projects. It provides an autonomous from OPIC's operations means for project stakeholders,

ranging from local communities to sponsors, that are detrimentally affected by the agency's projects to raise their complaints. The office's two main responsibilities are problem solving and compliance review. Concerning the former, the department assesses and strives to find solutions to complaints of local communities for OPIC's projects. As far as the latter goes, the office functions like an internal auditor, evaluating and reviewing OPIC's compliance to its set policies on a given project.

The OIP and Office of Accountability are crucial for OPIC's function. But the services the agency provides are furnished through the other departments of the Corporation

Services

In the financing sector, OPIC differentiates between Small & Medium Enterprises (SME) and larger businesses. The **Office of Small and Medium-Sized Enterprise Financing** handles the first cases, applicable to businesses with annual revenues of less than \$400 million. The agency can offer loans from \$350,000 up to \$10 million with final maturity in 3 to 15 years and can finance up to 65% of the overseas project cost, which must be at least 25% owned by the U.S. company. **Structured Financing** concentrates on larger projects that require a lot of capital, such as infrastructure, telecommunications and energy. OPIC also offers long-term capital and multiple-year capital expenditure programs and works with co-lenders for very capital-intensive projects. Instead of equity investment, a company can justify OPIC support for a project through long-term debt investment, if a U.S. bank provides a meaningful amount of non-credit enhanced long-term debt for the project.

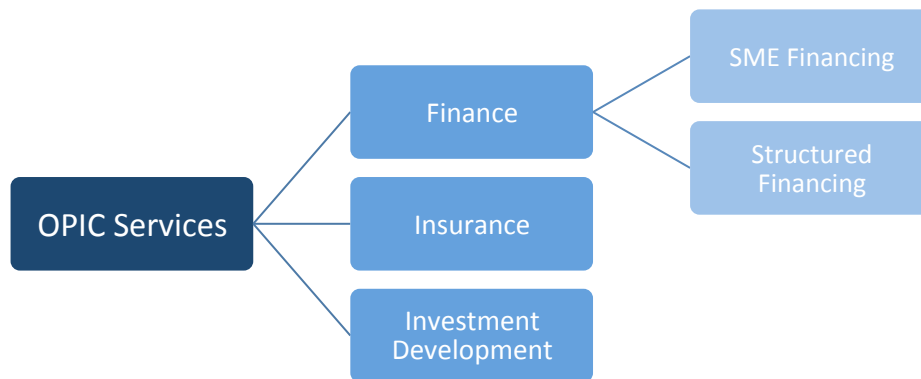


Figure 2 - Services provided by OPIC

The form of financing OPIC provides is either direct loans, used mainly for small businesses or loan guaranties, offered for large projects. Loans and guaranties can be from \$350,000 to \$250 million per project, and any debt over \$50 million issued has to first be approved by the Board of Directors. The process followed by a company requiring a loan is to reach out to OPIC to analyze and structure financing for a project and then OPIC will define the borrowing terms. If a guaranty is pursued, then a financial institution inclined to give the funds to OPIC is also picked out. To apply for a loan, a business must have already established a business plan and financial projections model. Interest rates and loan guaranty fees will typically be derived from an



underlying cost of capital, comparable to U.S. Treasury notes or other guaranteed issues of similar maturity, increased by a risk premium of 2 to 6 percent contingent on OPIC's evaluation and political risks involved. Host-government guaranties are usually not needed. An upfront fee of 1 to 2 percent is required based on commercial lending convention. On a final note in financing, OPIC does not compete with private financial markets, although it can offer full financing to small and medium businesses where no private financing is accessible.

Two main areas where OPIC has been recently operating are **renewables** and **impact investing**. OPIC's lending portfolio in the form of financing and political risk insurance on renewable energy sources and sustainable resource management surpasses \$1 billion. Impact investing, OPIC's second main concentration in recent years, is an effort to engender development of societal needs such as education and housing while at the same time generating enough returns to investors to justify the initial investment. To this end, OPIC is modifying its products to buttress impact investors with various products including certificates of participation for portfolio managers seeking to fill portfolio allocations with fixed-income instruments, multi-party and multi-project financing facilities for foundations, private equity funds and social entrepreneurs, supply chain financing, partial guaranty of financing facilities to bring down risk, and political risk insurance for investment funds.

In the insurance field, OPIC provides insurance from various adverse conditions that a project may face for any impact investing. Insurance offered typically covers three main areas of political risk; expropriation of contract, currency inconvertibility of currency, and political violence such as wars or coups. This insurance is offered in all 150 countries where OPIC is operating.

Finally, OPIC endorses the formation of privately owned and managed investment funds in developing countries, which in turn make equity investments in emerging economies, enabling long-term growth and promoting financial expertise and management skills. To date, the Corporation has allotted \$4.2 billion to create more than 46 private equity funds since 1987. These funds invested \$5.6 billion in more than 570 private companies in over 65 countries. In this manner both U.S. investments are rendered possible and local markets are developed and enhanced.

Activities in Infrastructure

OPIC's insurance portfolio in 2005 for infrastructure projects was 75% of its total insurances. This gives a measure of OPIC's interest in promoting infrastructure development in emerging markets. More recently, it has engaged in various arrangements relevant to infrastructure in Latin America, South and Southeast Asia, and Africa.

In Latin America and the Caribbean, a study showed that only 22% of the roads had been paved by 2009, compared to 62% in East Asia and 87% in Europe. What's more, Latin American government investments in infrastructure have been since the 1990's in general less than 2% of their GDP. Also, there are still many areas that have insufficient access to electricity. In 2012 only, among other projects, OPIC financed two 20 MW solar power plants in Peru with \$185



million, aimed at increasing access to electricity in poorer rural areas that currently have only 30% access. Additionally, it set up a \$125 million fund that will connect renewable energy technology companies in Europe and the U.S. with the markets in Latin America and Southeast Asia.

OPIC's activities to promote infrastructure development in Asia have been vigorous. In early 2012, OPIC endorsed \$250 million to aid India's premier infrastructure development lender, the Infrastructure Development Finance Company, in expanding its renewables and infrastructure portfolio. In November of the same year, OPIC signed a Memorandum of Understanding with Indonesia's Infrastructure Guarantee Fund (IIGF), to promote Public Private Partnership infrastructure projects in the country and increase OPIC's portfolio there parallel to the growth of the local economy.

The Corporation has also been very active in the Middle East and Africa. Two of its public private partnership deals, the organization of the first private power provider in Jordan in 2007 and an innovative power plant in the African nation of Togo in 2008, have made it to the International Finance Corporation's list of the "Top 40 PPPs". In late 2012, OPIC approved a \$150 million investment to boost agribusiness, energy and infrastructure, and financial services in Africa. Finally, in the Middle East and North Africa, following the Arab Spring events, OPIC announced in 2011 that it would provide up to \$2 billion to unlock private sector investment for small and medium businesses, as well as infrastructure projects, helping in granting them fast-track approval and quick capital mobilization to spur growth. This capital will also be potentially extended to the countries of Algeria, Oman and Yemen.

It's clear from the above that OPIC invests a large part of its portfolio to infrastructure development in emerging markets, in cooperation with local agencies, to promote growth and stability in the area, unlock foreign capital inflow, and at the same time secure fair returns for its activities.

Concluding Remarks

OPIC has helped fund thousands of projects around the globe in its more than 40 years of operation and promote development across 150 host countries through such actions as impact investing and infrastructure development funding. As an agency of the Federal Government of the U.S., OPIC is committed to support and advance U.S. interests through its operations, by helping solely American or American-owned foreign companies and in turn providing jobs to American people and engendering growth for the companies as well as the countries in which it invests.

OPIC is very focused on upholding transparency, disclosing all project information to stakeholders and encouraging them to take part in the decision process. In addition, it performs rigorous profiling of the investors and investees so as to avoid any potential frauds and threats to local communities.

Its services include debt financing for small and medium businesses, as well as large projects and PPPs, political risk insurance for companies operating in markets that are in line with the

Corporation's investment rules, and also private equity fund development. OPIC's current focus lies in the regions of the Middle East, Sub-Saharan Africa, Latin America and Southeast Asia, where there are numerous opportunities in largely untapped markets.

The Corporation incurs zero costs to American taxpayers, by financing its operations from its own budget. An ongoing legislation pending approval is to extend OPIC's defined authority and amend its mission, statutory restrictions and limitations for endorsing investments, as well as its organizational structure.

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