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The Overseas Private Investment Corporation: Background and Legislative Issues

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Summary

The Overseas Private Investment Corporation (OPIC), a wholly-owned U.S. government corporation, is referred to as the U.S. development finance institution (DFI). It provides political risk insurance, project and investment funds financing, and other services to promote U.S. direct investment in developing countries and emerging economies that will have a development impact. It operates under the foreign policy guidance of the Secretary of State. OPIC's governing legislation is the Foreign Assistance Act of 1961, as amended (22 U.S.C. §2191 *et seq.*).

Congress periodically has extended OPIC's authority to conduct its programs. The most recent multi-year, stand-alone reauthorization took place in 2003 with legislation extending its authority until September 30, 2007 (P.L. 108-158). Over the past several years, Congress has extended OPIC's authority through the appropriations process. The FY2015 appropriations act (§7073(b) of P.L. 113-235) extends OPIC's authority to conduct its credit and insurance programs until September 30, 2015. In addition to authorization responsibilities, Congress has appropriations, oversight, and other legislative responsibilities related to OPIC.

OPIC's programs are intended to promote U.S. private investment in developing countries by mitigating risks, such as political risks (including currency inconvertibility, expropriation, and political violence). Its financing and insurance are backed by the full faith and credit of the U.S. government. Congress places statutory requirements on OPIC's activities, such as those related to the economic and environmental impacts of projects. In FY2014, OPIC support was available in over 160 countries around the world and across a range of economic sectors. According to OPIC, since it began operations, it has supported more than 4,300 investment projects of more than $225 billion in investment value.

The international context in which OPIC operates has evolved. Foreign direct investment (FDI) flows have overtaken official development assistance (ODA) flows as a primary source of external financing to developing countries. DFIs also are playing a more active role in supporting private sector capital flows to developing countries. The composition of DFI players, historically dominated by developed countries, also has evolved, with emerging markets such as China becoming more prominent. Presently, OPIC has many counterparts at the bilateral, regional, and multilateral levels.

OPIC states that it operates on a "self-sustaining basis," using its own revenues, which include user fees and interest from U.S. Treasury securities. However, Congress annually sets in legislation OPIC's maximum spending levels for its administrative and program expenses. For FY2015, Congress provided $62.8 million for OPIC's administrative expenses to carry out its credit and insurance programs and authorized a transfer of $25.0 million from OPIC's noncredit account for credit program costs.

The 114th Congress may take up a number of issues related to OPIC. A key issue is whether or not to renew OPIC's authority and, if so, under what terms. Perspectives on OPIC differ. Supporters highlight OPIC's role in filling gaps in private sector investment financing and political risk insurance and helping to level the playing field for U.S. businesses vis-à-vis foreign competitors. Critics argue that OPIC is a form of "corporate welfare," with the private sector better suited to conduct such services, and they question OPIC's development benefits. Congress also may examine OPIC's financial product offerings, policies, activity composition, and organizational structure.

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The Overseas Private Investment Corporation (OPIC) is a wholly-owned U.S. government corporation that seeks to promote economic growth in less developed economies through the mobilization of private capital, in support of U.S. foreign policy goals.[1] It is often referred to as the U.S. government's development finance institution (DFI).[2]

OPIC's enabling legislation is the Foreign Assistance Act of 1961 (P.L. 87-195), as amended.[3] The Foreign Assistance Act provides OPIC with authority to conduct its activities for a renewable period of time.[4] The latest multi-year, standalone reauthorization of OPIC was in legislation passed in 2003 (P.L. 108-158) that extended OPIC's authority until September 30, 2007. Over the past several years, Congress has renewed OPIC's authority through the appropriations process (i.e., essentially through a "reauthorization waiver"). Most recently, the FY2015 appropriations act (§7073(b) of P.L. 113-235) extends OPIC's authority to conduct its credit and insurance programs until September 30, 2015.[5]

The Foreign Assistance Act directs OPIC to, "mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies ... under the policy guidance of the Secretary of State."[6] OPIC works to fulfill its mandate by providing political risk insurance, project and investment funds financing, and other services to promote U.S. direct investment oveseas. Its services are intended to mitigate the risks affecting U.S. international investment, such as political risks (including currency inconvertibility, expropriation, and political violence), for U.S. firms making qualified investments overseas.[7] OPIC characterizes itself as "demand-driven," providing services based on user interest. OPIC's activities may support U.S. exports, and it is involved in U.S. trade promotion interagency processes and initiatives.[8]

Congress does not approve individual OPIC projects, but has authorization, appropriations, oversight, and other legislative responsibilities related to the agency and its activities. Congress

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[1] For additional information, see OPIC's website: http://www.opic.gov/.

[2] As used in this report, the term DFI refers to an entity that provides officially backed (or government-backed) support (e.g., through direct loans, loan guarantees, or insurance) for private sector investment in developing countries. Development finance also can take place by other means that do not directly involve supporting the private sector. For example, the World Bank Group's International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) provide financial support to middle- and/or low-income governments for development purposes. For more information, see CRS Report R41170, *Multilateral Development Banks: Overview and Issues for Congress*, by (name redacted) . As another example, the U.S. Agency for International Development (USAID) supports activities in developing countries working through recipient country governments and non-governmental organizations, rather than directly with private investors. However, within the OPIC context, the term DFI generally refers to the involvement of the private sector.

[3] 22 U.S.C. §2191 *et seq.*

[4] 22 U.S.C. §2195(a)(2).

[5] §7073(b) of the FY2015 appropriations act (P.L. 113-235) states, "Notwithstanding section 235(a)(2) of the Foreign Assistance Act of 1961 [which states the expiration date for OPIC's authority], the authority of subsections (a) through (c) of section 234 of such Act [i.e., investment insurance, investment guarantees, and direct insurance] shall remain in effect until September 30, 2015."

[6] 22 U.S.C. §2191.

[7] U.S. Congress, House Committee on Foreign Affairs, Subcommittee on Terrorism, Nonproliferation, and Trade, *Testimony by Elizabeth Littlefield, President and CEO, OPIC*, Hearing on "Trade Promotion Agencies and U.S. Foreign Policy," 114th Cong., 1st sess., May 19, 2015.

[8] For example, OPIC is a part of the interagency Trade Promotion Coordinating Committee (TPCC) and the President's Export Promotion Cabinet; participated in the National Export Initiative (NEI), President Obama's plan to grow U.S. exports; and is participating in the NEI's successor, NEI/NEXT.

authorizes OPIC's ability to conduct its credit and insurance programs for a period of time that it chooses; can amend or change its governing legislation as it deems appropriate; and approves an annual appropriation for OPIC that sets an upper limit on the agency's administrative and program expenses, which are covered by OPIC's own funds. The Senate confirms presidential appointments to OPIC's Board of Directors and to the OPIC positions of president and executive vice president. The 114th Congress may take up a number of issues related to OPIC, chief of which could be whether to renew OPIC's authority and, if so, under what terms. Congress also may examine OPIC's financial product offerings, policies, activity composition, and organizational structure.

This report is structured into three parts: (1) OPIC background; (2) international context for development finance; and (3) key issues for Congress related to OPIC.

Background

Origins

Created under the Foreign Assistance Act of 1961 (P.L. 87-195) as amended, OPIC was established in 1969 and began operations in 1971 as a development finance institution amid an atmosphere of congressional disillusionment overall with U.S. aid programs, especially large infrastructure projects. In his first message to Congress on aid, President Nixon recommended the creation of OPIC to assume the investment guaranty and promotion functions that were being conducted by the U.S. Agency for International Development (USAID). President Nixon also directed that OPIC would provide "businesslike management of investment incentives" to contribute to the economic and social progress of developing nations.[9]

In creating OPIC, the Nixon Administration indicated that it was not attempting to end official U.S. foreign assistance, because "private capital and technical assistance cannot substitute for government assistance programs," a combination that can provide "official aid on the one hand, and private investment and technical assistance on the other." Private investment activities, however, were meant to complement the official assistance programs and, thereby, multiply the benefits of both. In addition, market-oriented private investment was viewed as an antidote to the government-oriented aid projects that were considered by some to be costly and inefficient. OPIC was created as a first step in the eventual overhaul of the entire U.S. aid program. In 1973, this overhaul was completed as the United States largely abandoned infrastructure building and other large capital projects in favor of humanitarian aid to meet basic human needs.[10]

Programs

OPIC categorizes its operations into three main programs—insurance, finance, and investment funds—that are intended to promote U.S. private investment in less developed countries by mitigating risks, such as political risks, for U.S. firms making qualified investment overseas. OPIC's authority to guarantee and insure U.S. investments abroad is backed by the full faith and credit of the U.S. government and OPIC's own financial resources. OPIC provides financing and insurance coverage of up to $250 million per project.

[9] *Public Papers of the Presidents: Richard Nixon*, Washington, U.S. Government Printing Office, 1969, p. 412.

[10] More generally, U.S. foreign assistance continues to evolve. See CRS Report R40213, *Foreign Aid: An Introduction to U.S. Programs and Policy*, by (name redacted) and (name redacted)

While private sector markets exist for financing and insuring U.S. direct investment overseas, there may be gaps in them due to "market failures" such as imperfect information, barriers to entry, risk levels, and financial crises. OPIC's primary objective in operating its programs is to promote economic development in low-income countries by supporting investment in projects, economic sectors, regions, and countries that are underserved by private markets; and mobilizing private investment in countries with viable project environments, but low credit ratings. For example, individual firms may attach more risk to investing in developing economies due to imperfect information and, thus, be unwilling to commit resources to investments in the least developed countries without risk mitigation by OPIC through its financing and insurance support.[11]

Political Risk Insurance

OPIC provides political risk insurance to safeguard investments against certain political risks involved in investing in developing countries in three broad areas:

- **Currency inconvertibility** coverage compensates investors if new currency restrictions are imposed which prevent the conversion and transfer of remittances from insured investments, but does not protect against currency devaluation.
- **Expropriation** coverage protects U.S. firms against the nationalization, confiscation, or expropriation of an enterprise, including actions by foreign governments that deprive an investor of fundamental rights or financial interests in a project for a period of at least six months. This coverage excludes losses that may arise from lawful regulatory or revenue actions by a foreign government and actions instigated or provoked by the investor or foreign firm.
- **Political violence** coverage compensates U.S. citizens and firms for property and income losses directly caused by various kinds of violence, including declared or undeclared wars, hostile actions by national or international forces, civil war, revolution, insurrection, and civil strife (including politically motivated terrorism and sabotage). Income loss insurance protects the investor's share of income from losses that result from damage to the insured property caused by political violence. Assets coverage compensates U.S. citizens and firms for losses of or damage to tangible property caused by political violence. OPIC also has a number of special programs that protect U.S. banks from political violence. This type of insurance reduces risks for banks and other institutional investors, which allows them to play a more active role in financing projects in developing countries. Specialized types of insurance coverage also are available for U.S. investors involved with certain contracting, exporting, licensing, or leasing transactions that are undertaken in a developing country.

OPIC's political risk insurance is available to U.S. citizens, U.S. firms, or to the foreign subsidiaries of U.S. firms as long as the foreign subsidiary is at least 95% owned by a U.S. citizen. According to OPIC, such insurance is available for investments in new ventures or in expansions of existing enterprises, and can cover equity investments, parent company and third

[11] The role that OPIC plays in mitigating risks of investing overseas has some parallels to protections offered to investors under U.S. international investment agreements (IIAs), which commonly take the form of bilateral investment treaties (BITs) and investment chapters of free trade agreements (FTAs). For more information, see CRS Report R44015, *International Investment Agreements (IIAs): Frequently Asked Questions*, coordinated by (name redacted).

party loans and loan guarantees, technical assistance agreements, cross-border leases, assigned inventory or equipment, and other forms of investment.[12]

Investment Financing

OPIC's investment financing program operates like an investment bank, customizing and structuring a complete package for individual projects in countries where conventional financing institutions often are unwilling or unable to lend on a basis that is competitively advantageous for investors. Most OPIC financing for a "non-financial" industry project (e.g., energy, manufacturing, transportation) is used to cover capital costs, such as facility construction or leasehold improvements, equipment, and design and engineering services associated with establishing or expanding a project. For a financial industry project, OPIC financing is used to fund lending capacity expansion, such as for microfinance, small- and medium-sized enterprise (SME) lending, or mortgage lending, by a financial services provider.[13]

To obtain OPIC financing, the venture must be commercially and financially sound and have some portion of U.S. ownership. Projects may be wholly owned by U.S. companies, foreign subsidiaries of U.S. companies, or joint ventures involving local companies and U.S. sponsored firms. In the case of a joint venture involving existing firms, the U.S. investor generally is expected to own at least 25% of the equity of the project. For new ventures, financing may be equal to 50% of the total project cost; a larger share is possible for certain projects.

The amount of OPIC's participation may vary taking into consideration financial risks and benefits. In general, OPIC will not support more than 75% of the total investment. OPIC provides financing to investors through two major programs: direct loans and loan guarantees.

- **Direct loans** generally range between $350,000 and $50 million, but can be more in certain cases. Direct loans are available only for ventures sponsored by, or significantly involving, U.S. SMEs or cooperatives (e.g., joint ventures).
- **Loan guarantees** typically are used for larger projects, ranging in size up to $250 million, but in certain cases can be higher. OPIC's guarantees are issued to financial institutions that are more than 50% owned by U.S. citizens, corporations, or partnerships. Rates and conditions on loans and guarantees depend on financial market conditions at the time and on OPIC's assessment of the financial and political risks involved. Consistent with commercial lending practices, OPIC charges up-front, commitment, and cancellation fees, and reimbursement is required for project-related expenses.

As part of its emphasis on U.S. small business investors, OPIC established the Enterprise Development Network (EDN) in June 2007. Under the EDN, OPIC collaborates with participating financial intermediaries to expand access of small businesses to OPIC-supported products and services.[14]

Investment Funds

Investment funds are privately owned and managed sources of capital that make direct equity investments in portfolio companies in new, expanding or privatizing companies in developing or

[12] OPIC, "Political Risk Insurance," https://www.opic.gov/what-we-offer/political-risk-insurance.

[13] OPIC, "Financial Products," https://www.opic.gov/what-we-offer/financial-products.

[14] OPIC, "Enterprise Development Network," http://www.opic.gov/doing-business/edn.

emerging markets. OPIC supports these funds through financing to supplement the equity that the funds privately raise. In most instances, OPIC provides up to one-third of the fund's total capital, and receives debt returns on its investment. OPIC takes a senior creditor position.

OPIC supports these funds in situations where U.S. firms either cannot allocate or cannot raise sufficient capital to start or expand their businesses overseas. OPIC solicits these funds through a competitive "Call for Proposals" process that seeks investment funds focusing on the agency's development priorities, particularly in areas where investments have been difficult to obtain. OPIC uses the "Call for Proposals" process to select fund managers with private equity investment capability and experience. OPIC-supported investment funds cover a range of economic sectors, including financial services, insurance, housing, renewable energy, and information technology.[15]

OPIC approved its first investment fund in 1987.[16] The investment funds program has been restructured periodically, such as in 2002, leading to the incorporation of the competitive selection process through the "Call for Proposals" (discussed above).[17]

Other Activities

OPIC conducts outreach to raise awareness of its programs and services for U.S. investors. For instance, OPIC offers workshops and seminars as part of its *Expanding Horizons* program to address concerns over political risks in emerging markets and share information about its programs and resources to support overseas investment. *Expanding Horizons* includes a focus on supporting U.S. small businesses in expanding to overseas markets.[18]

Statutory and Policy Conditions for OPIC-Supported Projects

Congress does not approve individual OPIC projects, but sets forth specific statutory requirements for OPIC in the Foreign Assistance Act of 1961 (22 U.S.C. §2191 *et seq*.), as amended. OPIC also has various policy requirements for its support (see **Table** 1).

OPIC investment support falls outside of the international rules of the OECD Arrangement on Officially Supported Export Credits (the Arrangement)—which establishes guidelines for member countries' export credit agencies (ECAs), such as the Export-Import Bank of the United States (Ex-Im Bank).[19] The Arrangement establishes limitations on terms and conditions of ECAs, including on minimum interest rates, maximum repayment terms, notification procedures, and reporting requirements for government-supported export credit activity that is directly tied to

[15] OPIC, "Investment Funds," http://www.opic.gov/what-we-offer/investment-funds.

[16] U.S. General Accounting Office (now General Accountability Office, GAO), *Overseas Investment: The Overseas Private Investment Corporation's Investment Funds Program*, GAO/NSIAD-00-159BR, May 2000, http://www.gao.gov/assets/80/79265.pdf.

[17] Ibid.

[18] OPIC, "*Expanding Horizons*," http://www.opic.gov/media-connections/events-speakers/expanding-horizons.

[19] According to the OECD, an ECA is an "agency in a creditor country that provides insurance, guarantees, or loans for the export of goods and services." ECA activities may be in low-income countries but generally do not have development-related objectives, although they may have a development impact. See Kaori Miyamoto and Kim Biousse, *Official Support for Private Sector Participation in Developing Country Infrastructure*, OECD, OECD Development Co-operation Working Papers No. 19, 2014, p. 16, http://www.oecd-ilibrary.org/development/official-support-for-private-sector-participation-in-developing-country-infrastructure_5jz14cd40nf0-en.

exports.[20] Among other things, the Arrangement does *not* apply to investment support not directly linked or tied to procurement from the United States.[21] As such, OPIC's activities are considered to fall outside of the OECD Arrangement (though they nevertheless may contribute to U.S. exports).

Table 1. Overview of Selected Statutory and Policy Requirements for OPIC

Requirement	Description	Statutory Basis
OVERALL		
Mandate	OPIC's mandate is "[t]o mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies, thereby complementing the development assistance objectives of the United States... under the foreign policy guidance of the Secretary of State."	22 U.S.C. §2191
Repayment	OPIC is directed to operate "on a self-sustaining basis, taking into account in its financing operations the economic and financial soundness of projects[.]"	22 U.S.C. §2191(a)
TRANSACTION-SPECIFIC		
U.S. Connection	According to OPIC, projects that it supports must have "meaningful involvement" by a U.S. citizen or business. OPIC's enabling legislation defines the term "eligible investor," and its policies provide further specifications.	22 U.S.C. §2198(c)
Economic Impact	In determining whether to provide support, OPIC shall "be guided by the economic and social impact and benefits" of the project, and seek to support "those developmental projects having positive trade benefits for the United States[.]" OPIC must decline support if it determines that overseas investment may reduce employment in United States, either because the U.S. firm shifts part of its production abroad, or because output from overseas investment will be shipped to United States and "reduce substantially the positive trade benefits" of the investment.	22 U.S.C. §2191(1); 22 U.S.C. §2191(i), (k)-(m)
Environmental Impact	OPIC generally is barred from participating in projects that pose an "unreasonable or major environmental health, or safety, hazard...." The Board of Directors cannot vote in favor of any project likely to have "significant adverse environmental impacts that are sensitive, diverse, or unprecedented" unless at least 60 days before the date of the vote, an environmental impact assessment of the project is conducted and made publicly available.	22 U.S.C. §2191(n); 22 U.S. §2191a(b)
Worker Rights	Projects can be implemented only in countries that currently have, or are taking steps to adopt and implement, laws that uphold internationally recognized worker rights. A national economic interest determination waiver is possible by the President of the United States.	22 U.S.C. §2191a(a)

[20] The role of the OECD Arrangement is to help "level the playing field" so that decisions to purchase goods and services are based on price and quality, rather than financing terms. See CRS Report R43671, *Export-Import Bank Reauthorization: Frequently Asked Questions*, coordinated by (name redacted) ; and CRS Report IF10017, *Export-Import Bank (Ex-Im Bank) Reauthorization*, by (name redacted).

[21] Ex-Im Bank, *Report the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States*, for the period January 1, 2014 through December 31, 2014, June 2015, p. 7, http://www.exim.gov/sites/default/files/reports/EXIM%202014CompetReport_0611.pdf.

Requirement	Description	Statutory Basis
Human Rights	OPIC is required to take into account in conducting its programs in a country, in consultation with the Secretary of State, "all available information about observance of and respect for human rights and fundamental freedoms in such country and the effect the operation of such programs will have on human rights and fundamental freedoms in such country."	22 U.S.C. §2199(i)
Small Business	To the "maximum degree possible consistent with its purposes," OPIC must give preferential consideration to projects involving U.S. small business and to increase the proportion of projects significantly involving U.S. small business to at least 30% of certain of its activity.	22 U.S.C. §2191(e)
Additionality	It is OPIC policy that its activities should complement, rather than compete with, the private sector, i.e., transactions that would otherwise be impossible or unlikely without its support.	
FOCUS AREAS AND LIMITATIONS		
Renewable Energy	FY2010 appropriations language directed OPIC to "issue a report, not later than 180 days after December 16, 2009, highlighting its substantial commitment to invest in renewable and other clean energy technologies and plans to significantly reduce greenhouse gas emissions from its portfolio," with the proviso that "such commitment shall include implementing a revised climate change mitigation plan to reduce greenhouse gas emissions associated with projects and sub-projects in the agency's portfolio as of June 30, 2008 by at least 30 percent over a 10-year period and by at least 50 percent over a 15-year period."	P.L. 111-117, 7079(b); 22 U.S.C. §2191b
Coal-fired Power Plants	Under FY2015 appropriations legislation, the use of OPIC funds is prohibited, through September 30, 2015, under certain conditions, for the enforcement of any rule, regulation, policy, or guidelines implemented pursuant to: • OPIC's greenhouse gas emissions reductions policy, based on FY2010 appropriations language (see above); and • OPIC's proposed modification to its Environmental and Social Policy Statement (ESPS) related to coal.	P.L. 113-235, 7086(4)(A)-(B))
Sub-Saharan Africa	The Board of Directors is directed to take "prompt measures" to increase OPIC programs and financial commitments in sub-Saharan Africa.	22 U.S.C. §2193(e)
Country Restrictions	"From time to time, statutory and policy constraints may limit the availability of OPIC programs in certain countries, or countries where programs were previously unavailable may become eligible."	
Sectoral and Product Restrictions	OPIC has "categorically prohibited sectors" based on economic, environmental, and other policy, e.g., projects established as a result of reducing or terminating U.S.-based operations.	

Source: CRS analysis of OPIC's enabling legislation (22 U.S.C. §2191 *et seq.*), as well as OPIC website and publications.

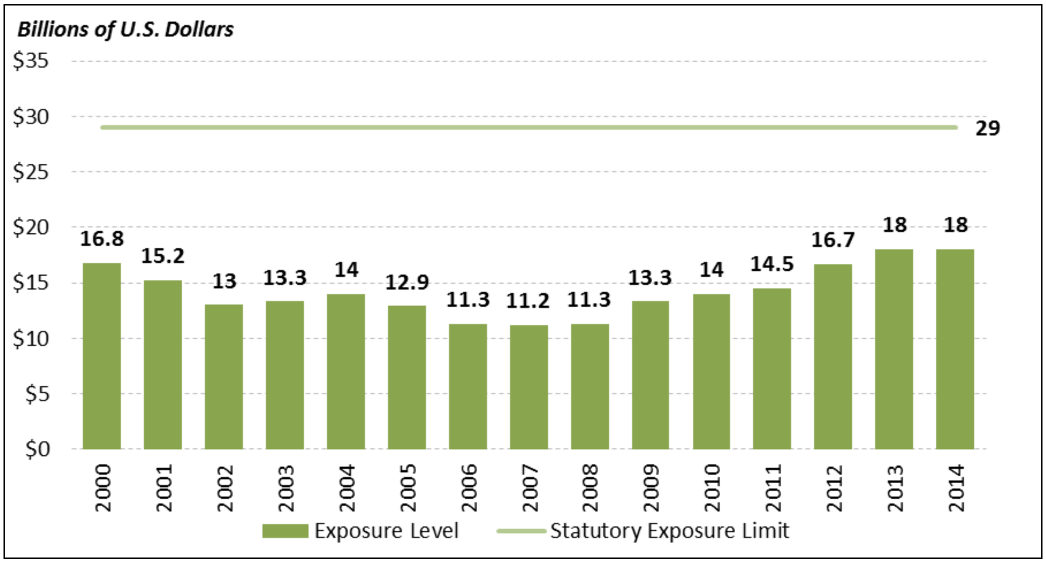
Notes: Descriptions provide summaries of the requirements and may not be comprehensive.

Portfolio Exposure

The statutory limit on the total contingent liability ("portfolio exposure") for OPIC's financing and insurance is $29 billion.[22] In FY2014, OPIC's portfolio had a total exposure of $18 billion distributed across financial products and regions (see **Figure 1** and **Table 2**).[23]

The composition of OPIC's portfolio by financial product type has evolved; in earlier years, political risk insurance constituted the larger share of the portfolio, while in more recent years, investment financing constitutes the larger share. For example, in FY2000, OPIC's total portfolio of $16.8 billion was composed of 59% in political risk insurance and 41% in investment financing.[24] In contrast, in FY2014, OPIC's total portfolio of $18 billion was composed of 17% in political risk insurance and 83% in investment financing.[25]

Figure 1. OPIC Portfolio Exposure: Statutory Limit and Actual Level, FY2000-2014



Source: CRS, based on data from OPIC annual reports, various years.

Notes: OPIC's statutory limit on its exposure is provided in 22 U.S.C. §2195(a).

[22] 22 U.S.C. §2195(a). OPIC's exposure "includes undisbursed commitments (obligations) and maximum contingent liability under OPIC's current insurance contracts." *Annual Management Report of the Overseas Private Investment Corporation for Fiscal Year 2014*, p. 5, https://www.opic.gov/sites/default/files/files/opic-financials-0302.pdf.

[23] *OPIC 2014 Annual Report*, p. 4, https://www.opic.gov/sites/default/files/files/opic-fy14-annual-report.pdf.

[24] CRS calculation based on data in *OPIC 2000 Annual Report*, pp. 33-34, https://www.opic.gov/sites/default/files/docs/00_AnnualReport.pdf.

[25] CRS calculation based on data in *Annual Management Report of the Overseas Private Investment Corporation for Fiscal Year 2014*, p. 9.

Table 2. Composition of OPIC Portfolio Exposure, FY2014

Exposure Category	Amount ($bn)	Percent of Total Exposure
Total Exposure	$18.0	100%
Program		
Financing (Loan, Loan Guarantee, Funds Support)	$15.0	83%
Political Risk Insurance	$3.1	17%
Geographic Region		
Latin American & the Caribbean	$5.5	30%
Sub-Saharan Africa	$3.7	20%
North Africa/Middle East	$3.3	18%
Eastern Europe & Newly Industrializing States	$3.0	17%
Asia	$2.6	14%
Worldwide Funds	$0.7	4%
Stop Loss Adjustments[a]	-$0.6	-4%

Source: CRS, based on data from *Annual Management Report of the Overseas Private Investment Corporation for Fiscal Year 2014*, p. 9.

Notes: The OPIC publication did not provide exposure composition by economic sector.

a. According to OPIC's FY2013 annual management report, the insurance stop-loss adjustment "represents the difference between the aggregate coverage amount and OPIC's actual exposure under these contracts."

Authorizations of Finance and Insurance Support

In FY2014, OPIC provided $2.96 billion in new commitments for investment projects (see **Figure 2**), which it estimates will support $316 million in U.S. exports over the next five years.[26] It also estimates that its FY2014 new commitments are associated with 409 jobs in the United States and 9,000 jobs in the host countries.[27] OPIC prioritizes its works based on U.S. foreign policy and development objectives, but is also demand-driven. Activities include the following.[28]

- **Countries/regions:** In FY2014, OPIC support was available in 162 developing and emerging economies across Africa, Latin America, the Middle East, Asia, and Eastern Europe.[29] OPIC had active projects in 101 countries that year. According to OPIC, 31% of the new projects to which it committed support in FY2014 were in poor countries.[30] OPIC's support for projects in sub-Saharan

[26] *OPIC 2014 Annual Report,* p. 4; and OPIC, *Congressional Budget Justification – Fiscal Year 2016,* p. 15, https://www.opic.gov/sites/default/files/files/20150309-opic-cbj-final.pdf.

[27] OPIC, *Congressional Budget Justification – Fiscal Year 2016,* p. 15; and *OPIC 2014 Annual Report,* p. 5.

[28] Discussion draws from OPIC annual reports, congressional budget justifications, and press releases.

[29] According to OPIC, "[f]rom time to time, statutory and policy constraints may limit the availability of OPIC programs in certain countries, or countries where programs were previously unavailable may become eligible." For example, OPIC suspended its programs in China following the 1989 crackdown on Tiananmen Square protestors. Department of State, *2013 Investment Climate Statement China*, February 2013, http://www.state.gov/e/eb/rls/othr/ics/2013/204621.htm.

[30] *OPIC 2014 Annual Report,* p. 5.

Africa has grown from around 6% about a decade ago to around one-quarter of new commitments in FY2014.[31]

- **Economics sectors:** OPIC is active in a range of economic sectors, including agriculture, renewable energy, health care, financial services, housing, infrastructure, "impact investing," and technology.[32] Between FY2010 and FY2014, its renewable energy commitments nearly doubled to $1.22 billion.[33] OPIC considers all of its projects to be in "impact sectors," but specified that its FY2014 activity included $188 million for projects "with the explicit intention of promoting social and environmental returns in addition to financial returns."[34]
- **SMEs:** OPIC seeks to expand U.S. SME involvement in overseas investment. According to OPIC, between FY2010 and FY2014, U.S. SMEs accounted for nearly 75% of projects receiving its support.[35] OPIC also has focused on expanding financing available to SMEs in developing countries and emerging markets.

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[31] U.S. Congress, Senate Committee on Foreign Relations, *Hearing on Power Africa Initiative*, Testimony of Mimi Alemayehou, Executive Vice President, OPIC, 113th Cong., 2nd sess., March 26, 2014; and *2014 OPIC Annual Report*, p. 3.

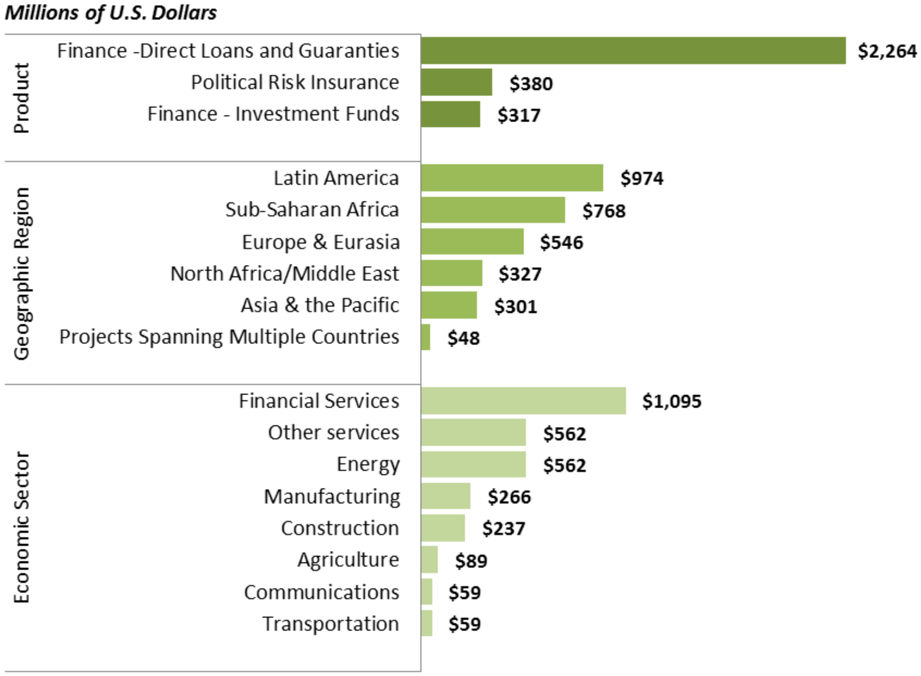
[32] OPIC, *Congressional Budget Justification – Fiscal Year 2012*, pp. 5-6, https://www.opic.gov/sites/default/files/files/opic-fy12-cbj.pdf. OPIC defines impact investing as "investments in businesses that are designed with the intent to generate positive social and/or environmental impact" and "can include business sectors such as basic needs (food, water, sanitation, housing), basic services (education, health care, clean technology), and financial services (microfinance and small and medium enterprise finance)."

[33] *2014 OPIC Annual Report*, p. 4.

[34] OPIC, *Congressional Budget Justification – Fiscal Year 2016*, p. 11.

[35] *2014 OPIC Annual Report*, p. 19.

Figure 2. Composition of OPIC New Commitments, FY2014



Source: CRS, based on *OPIC 2014 Annual Report*; and U.S. Congress, House Committee on Foreign Affairs, Subcommittee on Terrorism, Nonproliferation, and Trade, *Testimony by Elizabeth Littlefield, President and CEO, OPIC*, Hearing on "Trade Promotion Agencies and U.S. Foreign Policy," 114th Cong., 1st sess., May 19, 2015.

Notes: OPIC FY2014 new commitments totaled $2.96 billion. The economic sector values reflect CRS calculations using the worldwide commitment and percentages for each economic sector from the testimony.

OPIC participates in broader foreign policy initiatives by the Administration, as illustrated below.

- In **response to political change in the MENA region**, in March 2011, then-Secretary of State Clinton announced that OPIC would provide up to $2 billion in financial support "to catalyze private sector development" in MENA to spur economic growth and job creation.[36] In May 2011, President Obama announced that OPIC would provide up to $1 billion in financing to support infrastructure and job creation specifically in Egypt.[37] As part of these efforts, OPIC, for example, approved $500 million in lending to Egypt and Jordan ($250 million to each country) to support small businesses in those countries.[38]
- The **U.S.-Africa Clean Energy Finance (ACEF) Initiative**—a joint mechanism by OPIC, along with the Department of State and the Trade and Development Agency (TDA)—is a four-year, $20 million program launched in June 2012 to catalyze private sector investment in the African clean energy sector by

[36] OPIC, "OPIC to Provide Up to $2 Billion for Investment in Middle East and North Africa," press release, March 11, 2011, https://www.opic.gov/press-releases/2011/opic-provide-2-billion-investment-middle-east-and-north-africa.

[37] Office of the Press Secretary, "Remarks by the President on the Middle East and North Africa," The White House, State Department, Washington, DC, May 19, 2011, http://www.whitehouse.gov/the-press-office/2011/05/19/remarks-president-middle-east-and-north-africa.

[38] OPIC, "OPIC Board Approves $500 Million for Small Business Lending in Egypt and Jordan," press release, July 1, 2011, http://www.opic.gov/news/press-releases/2009/pr070111.

identifying and providing financing for project development costs. In 2013, OPIC dedicated a staff member for South Africa to support the initiative.[39]

- The **U.S.-Asia Pacific Comprehensive Partnership for a Sustainable Energy Future**, announced during the 2012 East Asia Summit, is a policy initiative that includes up to $6 billion from federal trade and investment promotion agencies to finance exports and investments related to energy infrastructure in the region.[40] OPIC stated that it will provide up to $1 billion in financing for sustainable power and infrastructure projects in the region, in support of the initiative.[41]
- **Power Africa**, announced by the President in June 2013, is an initiative to double access to power in sub-Saharan Africa. The U.S. government plans to commit more than $7 billion in financial support over the next five years, including up to $1.5 billion in OPIC financing and insurance to energy projects in the region.[42]
- **Look South**, announced in January 2014, is a Department of Commerce-led federal government initiative to help more companies do business with Mexico and the United States' other free trade agreement partners in Latin America. The initiative includes a focus on increasing availability and awareness of investment tools for the region through OPIC.[43]

Budget

Congress directs OPIC to operate "on a self-sustaining basis, taking into account in its financing operations the economic and financial soundness of projects."[44] OPIC's budget is funded from its offsetting collections, which are derived from the premiums, interest, and fees generated from its insurance and finance services and the accumulated interest generated from the agency's investment in U.S. Treasury securities.[45] Its budget is composed of noncredit and credit accounts, in conformity with the standards set out in the Federal Credit Reform Act of 1990 (FCRA). The noncredit portion relates to OPIC's political risk insurance program, while the credit portion is comprised of OPIC's direct and guaranteed loans. OPIC uses premium income and the interest it

[39] John Morton, "U.S.-Africa Clean Energy Finance Initiative – Supporting renewable energy to power Africa," OPIC, blog, January 13, 2015, https://www.opic.gov/blog/renewables/u-s-africa-clean-energy-finance-initiative-supporting-renewable-energy-to-power-africa; and U.S. Diplomatic Mission to South Africa, "OPIC to dedicate staff member for South Africa in 2013," press release, October 16, 2012, http://southafrica.usembassy.gov/press_121017a.html.

[40] The White House, "Fact Sheet on the U.S.-Asia Pacific Comprehensive Partnership for a Sustainable Energy," press release, November 20, 2012, http://www.whitehouse.gov/the-press-office/2012/11/20/fact-sheet-us-asia-pacific-comprehensive-partnership-sustainable-energy.

[41] OPIC, *Congressional Budget Justification – Fiscal Year 2016*, p. 16.

[42] The White House, "Fact Sheet: Power Africa," press release, June 30, 2013, http://www.whitehouse.gov/the-press-office/2013/06/30/fact-sheet-power-africa.

[43] Department of Commerce, "Fact Sheet: Look South Initiative," January 9, 2014, http://www.commerce.gov/news/fact-sheets/2014/01/fact-sheet-look-south-initiative.

[44] 22 U.S.C. §2191(a).

[45] Prior to FY1992, OPIC relied exclusively on resources controlled outside the annual appropriations process (fees and interest on Treasury securities) to fund its operations. With federal government credit reform, however, OPIC was required to receive an appropriation based on an estimate of its credit programs (direct loans and guarantees). From 1992 to 1994, OPIC received an appropriation to cover its operations from the General Fund of the U.S. Treasury and reimbursed the amount of that appropriation from its collections. For FY1998 and beyond, OPIC's appropriations language provides OPIC with the authority to spend their own collections, without the need for a General Fund appropriation.

accrues from the assets in its noncredit account to fund the direct and indirect expenses in its noncredit and credit accounts.

While OPIC has the authority to spend from its own revenue to cover its operations, Congress and the President set OPIC's maximum spending levels for its administrative and program expenses through the annual appropriations process. FY2015 appropriations legislation provided $62.8 million for OPIC's administrative expenses to carry out its credit and insurance programs and authorized a transfer of $25 million from OPIC's noncredit account for the cost of its credit programs (e.g., the cost of modifying loans) (see **Table 3**). The President's FY2016 budget requests $83.5 million for OPIC's administrative expenses to carry out its credit and insurance programs and a transfer of $20 million from its noncredit account for credit program costs.

OPIC has a net negative budget authority; its offsets to budget authority have been greater than its appropriations. According to OPIC, it generated $358 million in "deficit reduction" for the U.S. government in FY2014, representing its 37th consecutive year of generating negative outlays.[46]

OPIC's loan disbursements are financed through two sources: the long-term loan subsidy costs are financed by its collections, and the remaining non-subsidized portion of the loans is financed by borrowings from the Treasury. OPIC finances investment guarantees by issuing certificates of participation in U.S. debt capital markets. OPIC repays the Treasury through collection of loan fees, repayments, and default recoveries. OPIC uses nonbudgetary "financing accounts" to account for credit program cash flow. The subsidy expense for a direct loan or loan guarantee is estimated when it is first disbursed. OPIC reestimates its total subsidy cost at regular intervals based on updated assumptions. Permanent indefinite authority is available to fund any reestimated increase of subsidy costs that occurs after the year in which a loan is disbursed. Reestimated reductions of subsidy costs are returned to the Treasury.[47]

Table 3. OPIC Appropriations, FY2011-FY2016

	FY11	FY12	FY13	FY14	FY15	FY16
Noncredit Account: Administrative expenses ($mn)						
Amount requested	$53.9	$57.9	$60.8	$71.8	$71.8	$83.5
Amount appropriated	$52.3	$54.99	$54.99[a]	$62.6	62.8	---
Credit Account: Program expenses ($mn)						
Amount requested	$29.0	$31.0	$31.0	$31.0	$25.0	$20.0
Amount appropriated	$18.1	$25.0	$25.0[a]	$27.4	$25.0	---
Staff: Direct civilian full-time equivalents	205	220	229	223	280[b]	290[b]

Source: *Budget of the United States Government*, various years, U.S. Government Printing Office, Washington; and appropriations legislation, various years.

Notes:

a. Data do not reflect sequestration reduction.

b. Estimated.

[46] OPIC, *Congressional Budget Justification – Fiscal Year 2016,* p. 5. This amount is on a cash basis, and is different than the amount calculated on a budgetary basis.

[47] OPIC, "Financial Products," https://www.opic.gov/what-we-offer/financial-products/products. See also *Annual Management Report of the Overseas Private Investment Corporation for Fiscal Year 2014*, pp. 23-26.

Risk Management

OPIC seeks to promote private sector investment in developing and emerging economies through offering financial products that help to mitigate the political and commercial risks of making qualified investments overseas. As such, OPIC faces certain risks in its activities. Congress directs OPIC to "conduct its insurance operations with due regard to the principles of risk management...."[48] OPIC assesses the credit and other risks of proposed transactions; monitors current commitments for risks; and seeks recoveries in instances where it pays or settles valid claims.[49] OPIC also states that it budgets and accounts for risk in its credit portfolio through FCRA. According to OPIC, in FY2014, its credit portfolio had write-offs, net of recoveries, of less than 1%.[50] Additionally, OPIC says that it offsets any potential future losses with reserves (comprised of U.S. Treasury securities).[51] OPIC's cumulative reserves totaled $5.5 billion in FY2014.[52]

In its 43 years of operations, OPIC reports that it has expended more cash than it collected in two fiscal years. Based on its historical record and risk management practices, OPIC recognizes but considers unlikely the possibility, "that a significant credit or insurance event affecting multiple transactions could trigger net losses in [OPIC's] portfolio," resulting in costs exceeding collections in a future fiscal year.[53]

International Context for Development Finance

External financial flows to developing countries come through a number of channels. One is official development assistance (ODA) from foreign governments (e.g., grants, concessional lending).[54] Another is private capital flows from foreign companies, including through foreign direct investment (FDI).[55] In developing countries, ODA historically was the main source of external financing. Over time, FDI flows have grown relative to ODA flows (see **Figure 3**).[56] In the 1990s, FDI flows began outweighing ODA flows in developing countries, and in 2013, they were more than six times greater. Traditionally, FDI largely has flowed from developed countries to developing countries, but emerging markets and developing countries also are becoming significant FDI sources.[57]

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[48] 22 U.S.C. §2191(d).

[49] For more information, see OPIC, *2014 Annual Claims Report*, September 30, 2014, https://www.opic.gov/sites/default/files/files/2014%20Annual%20Claims%20Report.pdf.

[50] OPIC, "OPIC Achieves $3 Billion in Commitments for 2014, Catalyzing Billions More, While Supporting American Business Growth in Developing Countries," press release, December 18, 2014, https://www.opic.gov/press-releases/2014/opic-achieves-3-billion-commitments-2014-catalyzing-billions-more-while-supporting-american-business-growth-.

[51] *Annual Management Report of the Overseas Private Investment Corporation for Fiscal Year 2014*, p. 5.

[52] Ibid.

[53] Ibid.

[54] See OECD, Development Co-operation Directorate (DCD-DAC), http://www.oecd.org/dac/stats/data.htm.

[55] Foreign direct investment (FDI) takes place when a resident (including a company) of one country obtains a lasting interest in, and a degree of influence over the management of, a business enterprise in another country.

[56] Official development assistance (ODA), as defined and reported by the OECD, differs from U.S. government measures of foreign assistance because it excludes all military assistance and assistance to developed countries, among other things. For more information, see CRS Report R40213, *Foreign Aid: An Introduction to U.S. Programs and Policy*, by (name redacted) and (name redacted).

[57] For background, see United Nations Conference on Trade and Development (UNCTAD), *World Investment Report*
(continued...)

Along with the changing international investment landscape, the international development policy landscape has evolved with bilateral and multilateral development financing institutions (DFIs) playing a more active role. DFIs are used here to refer to entities that provide officially backed (or government-backed) support (e.g., through direct loans, loan guarantees, or insurance) for private sector investment in less developed countries.[58]

It is difficult to find centralized, comprehensive sources of information on DFI activities. Officially backed investment financing activities are outside of the scope of the OECD Arrangement on Officially Supported Export Credits, which includes notification procedures and reporting requirements on activity. Countries vary in terms of how much information they publish on their DFI activities. However, according to available estimates, it appears that DFI support has grown relative to ODA in developing countries. For example, based on an estimate by the International Finance Corporation (IFC) using its database, private sector commitments (*not* including political risk insurance) by international financial institutions to developing countries grew from about $10 billion in 2002 to over $40 billion in 2010.[59] A subsequent estimate by the Center for Strategic & International Studies (CSIS), which it said was based on the same set of institutions, pegged that total at about $68 billion in 2013.[60]

(...continued)

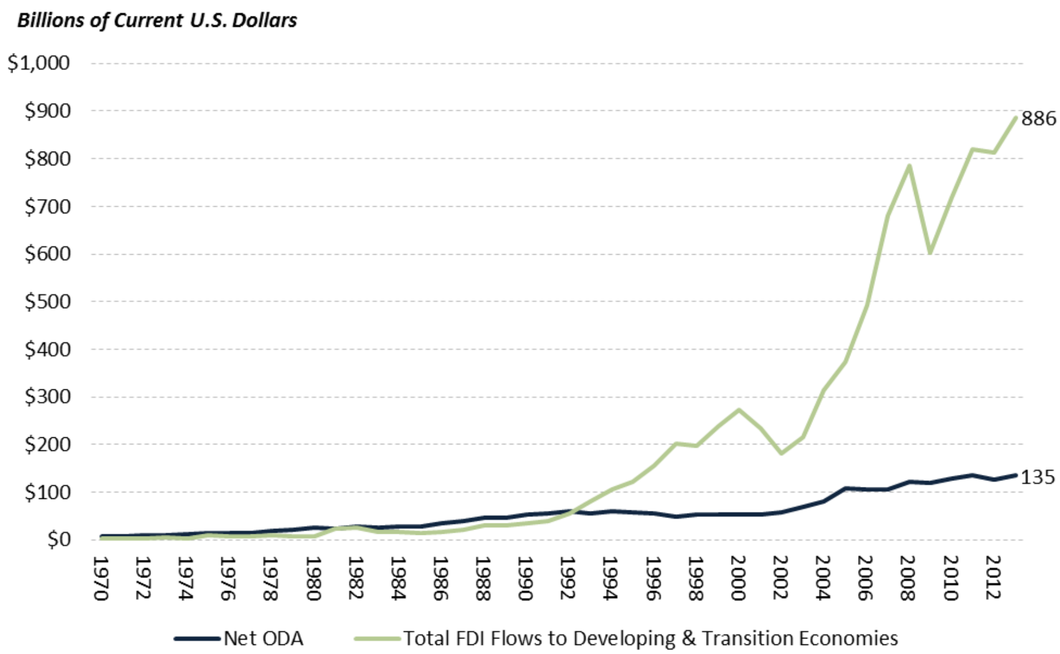
2015 – Reforming International Investment Governance, http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1245.

[58] Development finance can take place through other means that do not directly involve supporting the private sector. For example, the World Bank Group's International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) provide financial support to middle- and/or low-income governments for development purposes. For more information, see CRS Report R41170, *Multilateral Development Banks: Overview and Issues for Congress*, by (name redacted). As another example, USAID supports activities in developing countries working through recipient country governments and non-governmental organizations, rather than directly with private investors.

[59] According to the International Finance Corporation (IFC), it is estimated that over 90% of private sector finance by international financial institutions is covered in its database. IFC, *International Finance Institutions and Development Through the Private Sector,* A joint report of 31 multilateral and bilateral development finance institutions, 2011, p. 36, http://www.developmentandtheprivatesector.org/.

[60] Daniel F. Runde and Helen Moser, *DFI Finance Increases to One Half of ODA*, CSIS, July 13, 2015, http://csis.org/publication/dfi-finance-increases-one-half-oda.

Figure 3. Net Official Development Assistance (ODA) and Foreign Direct Investment (FDI) Flows to Developing Countries, 1970-2013



Source: Adapted by CRS. Net ODA data from Organization for Economic Cooperation and Development (OECD), Development Assistance Committee (DAC) table, "Net ODA from DAC countries from 1950 to 2014," http://www.oecd.org/dac/stats/data.htm. FDI data from United Nations Conference on Trade and Development (UNCTAD), UNCTADstat, FDI flows, http://unctad.org/en/Pages/Statistics.aspx.

The level of DFI support for the private sector through political risk insurance also may be significant. The Berne Union, an international group of private and state export credit and foreign investment insurers, maintains statistics on political risk insurance provided by its members linked to FDI.[61] However, these data may include investment support *not* related to development finance, given the group's membership. According to the Berne Union, its members' newly underwritten investment insurance transactions reached close to $100 billion in 2014, up from about $66 billion in 2010; and its members' total portfolio of insured investment reached about $238 billion in 2014, up from about $193 billion in 2010.[62]

While developed countries, such as the United States (through OPIC) and some other G-7 countries, traditionally have been the sources of development finance activities, emerging economies such as China, Brazil, and India also have become significant players in this space. Presently, OPIC has many counterparts internationally (see Table **4**). The growing number of development finance players and volumes of investment financing have resulted in greater and varied competition for U.S. businesses—competition from firms in both developed countries and from emerging economies as they move up the value chain. U.S. companies may seek OPIC assistance to counter the officially backed investment support that their competitors receive. At

[61] The Berne Union has over 70 member companies (including the Berne Union Prague Club). OPIC and Ex-Im Bank are both members of the Berne Union. For more information, see http://www.berneunion.org/about-the-berne-union/.

[62] Berne Union, *Statistics 2010-2014*, June 24, 2015 (updated), http://www.berneunion.org/wp-content/uploads/2012/10/Berne-Union-2014-Total-and-Complete.pdf.

the same time, from an economic perspective, the role of government-backed financing and its impact on markets is debated.

Table 4. Selected Development Finance Institutions (DFIs)

Development Finance Institutions	Sponsor
Bilateral	
Overseas Private Investment Corporation (OPIC)	United States
Association of European Development Finance Institutions (EDFI)	
Belgian Investment Company for Developing Countries (BIO); Belgian Corporation for International Investment (SBI-BMI)	Belgium
CDC Group*	United Kingdom
Compañía Española de Financiación del Desarrollo (COFIDES)	Spain
Entrepreneurial Development Cooperation (DEG)	Germany
Finnish Fund for Industrial Cooperation Ltd. (FINNFUND)	Finland
The Investment Fund for Developing Countries (IFU)	Denmark
Netherlands Development Finance Company (FMO)	Netherlands
Norwegian Investment Fund for Developing Countries (Norfund)	Norway
Oesterreichische Entwicklungbank AG (OoEB; The Development Bank of Austria)	Austria
Société de Promotion et de Participation pour la Coopération Economique (Proparco)	France
Swiss Investment Fund for Emerging Markets (SIFEM)	Switzerland
Società Italiana per le Imprese all'Estero (SIMEST)	Italy
Sociedade para o Financiamento do Desenvolvimento (SOFID)	Portugal
Swedfund International AB (Swedfund)	Sweden
Japanese Bank for International Cooperation (JBIC)	Japan
Export-Import Bank of China; China Export and Credit Insurance Corporation (Sinosure); China Development Bank (CDB)	China
Brazilian Development Bank (BNDES)	Brazil
Export Credit Guarantee Corporation of India (ECGC)	India
Regional	
African Development Bank (AfDB); Asian Development Bank (ADB); European Bank for Reconstruction and Development (EBRD); Inter-American Development Bank (IDB)	
Multilateral	
International Finance Corporation (IFC)**; Multilateral Investment Guaranty Agency (MIGA)**	

Source: CRS compilation from International Finance Corporation (IFC), *International Finance Institutions and Development: Private Sector*, 2011; Christian Kingombe, Isabella Massa and Dirk Willem te Velde, *Comparing Development Institutions Literature Review*, Overseas Development Institute, January 20, 2011; Association of European Development Finance Institutions (EDFI) publications; and various other DFI publications and annual reports.

Notes: * CDC (United Kingdom) formerly was Colonial Development Corporation, then Commonwealth Development Corporation.
** IFC and MIGA are both part of The World Bank Group.

Below are some general comparisons of OPIC and selected other DFIs; these comparisons are illustrative of the DFI landscape and not comprehensive.

- **Ownership:** OPIC and certain other DFIs are owned exclusively by the public sector, such as CDC (United Kingdom) and DEG (Germany). Others, such as FMO (the Netherlands) and Proparco (France), have joint public and private ownership. Regional and multilateral DFIs (such as EBRD and IFC) have multiple shareholders from various countries.
- **Organizational Structure:** Countries vary in how they organize their investment and export financing functions. The United States houses investment and export financing functions in separate entities, OPIC (the official U.S. DFI) and the Export-Import Bank of the United States (the official U.S. export credit agency). The two agencies have different missions—with OPIC focused more on foreign policy and development goals and Ex-Im Bank geared toward commercial goals—although they do coordinate on certain transactions. By comparison, some other countries house these functions in the same entity.[63] For example, JBIC (Japan) conducts both investment and export financing operations.
- **International Rules:** As discussed earlier, the investment financing activities of DFIs fall outside of the forms of financing regulated by international disciplines through the OECD Arrangement on Officially Supported Export Credits. The Arrangement includes limitations on financial terms and conditions in areas such as down payments, repayment terms, interest rates and premia, and country risk classifications. It contains notification procedures and reporting requirements for countries' export credit activities to encourage transparency. Among other things, the Arrangement does *not* apply to investment support not directly linked or tied to procurement from the country providing the official support.[64]
- **Activities:** DFIs provide investment support through a range of financial instruments. OPIC provides investment support through direct loans, loan guarantees, and political risk insurance. In contrast, many other DFIs offer a larger suite of financial products, including participating as a limited partner in private equity funds. According to OPIC, it is the only one of at least 30 private sector-focused DFIs without the ability to participate as a limited partner in private equity funds.[65] For instance, the CDC (United Kingdom); DEG (Germany); FMO (Netherlands); Proparco (France); and IFC (multilateral) reportedly had equity authority as of FY2012.[66] In some cases, equity may be the

[63] Entities where investment and export financing functions are combined can variously be called, in some cases, either DFIs or export credit agencies (ECAs).

[64] Ex-Im Bank, *Report the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States*, for the period January 1, 2014 through December 31, 2014, June 2015, p. 7, http://www.exim.gov/sites/default/files/reports/EXIM%202014CompetReport_0611.pdf.

[65] OPIC, *Congressional Budget Justification – Fiscal Year 2016,* p. 9. .

[66] U.S. Congress, House Committee on Foreign Affairs, Subcommittee on Terrorism, Nonproliferation, and Trade, *Testimony by Elizabeth Littlefield, President and CEO, OPIC,* Hearing on "Trade Promotion Agencies and U.S. Foreign Policy," 114th Cong., 1st sess., May 19, 2015, p. 12.

primary focus of DFI activity. Additionally, some DFIs provide "project-specific and general technical assistance."[67] OPIC provides limited technical support.

- **Portfolio Size:** The size of DFI portfolios varies. For example, OPIC's cumulative portfolio totaled $18 billion in FY2013. In comparison, according to the Association of the European Development Finance Institutions (EDFI), at the end of 2013, its 15 members collectively had a total portfolio of €28 billion (about $39 billion), although each member individually had a portfolio of less than €7 billion (about $10 billion).[68]

  Ex-Im Bank's annual competitiveness report, while focused on export financing, includes some data on investment financing as part of countries' "total official medium- and long-term (MLT) trade-related support." By Ex-Im Bank estimates, OECD members' MLT investment financing totaled $51 billion in 2014, up from $42 billion in 2013, while China's MLT investment financing *alone* totaled $43 billion in 2014, up from $37 billion in 2013.[69] (These data may include investment financing that some would *not* consider as development finance. Also, these data may exclude short-term investment financing that may be included in the above OPIC vs. EDFI comparison.)
- **Portfolio Distribution:** DFIs support projects in a range of economic sectors. Infrastructure and financial services have been major areas of focus, but support for other sectors, such as agribusiness, is also a focus. For emerging market DFIs, securing access to natural resources is a key focus or related outcome of development finance activities. For example, securing access to natural resources in sub-Saharan Africa is widely regarded as an important motivation for China's investment financing in the region.[70]
- **Policy Requirements:** Requirements that projects must meet in order to receive support vary by DFI, such as with respect to environmental, worker rights, and other conditions. OPIC is widely regarded in the development finance community as having among the most extensive policy requirements for projects to receive its support. According to OPIC, it has been a leader among DFIs in "developing and applying environmental and social policies that advance long-term sustainable development."[71] While some may support such policy goals, others may view the particular requirements stemming from the policies as overly burdensome. In contrast to OPIC, DFIs of emerging market economies, such as China, generally are not considered to have as strong policy

[67] Daniel F. Runde et al., *Sharing Risk in a World of Danger and Opportunities: Strengthening U.S. Development Finance Capabilities*, Center for Strategic and International Studies (CSIS), December 2011, http://csis.org/files/publication/111205__Runde_SharingRisk_Web.pdf. In the United States, other agencies, such as TDA, provide technical assistance for development projects.

[68] Based on Federal Reserve exchange rate of 1 euro to 1.3779 U.S. dollars on December 31, 2013, accessed on august 20, 2015.

[69] Ex-Im Bank, *Report the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States*, for the period January 1, 2014 through December 31, 2014, June 2015, pp. 17, 19.

[70] For example, see GAO, *Sub-Saharan Africa: Trends in U.S. and Chinese Economic Engagement*, GAO-13-199, February 2013.

[71] See Appendix 1 of OPIC, *Overseas Private Investment Corporation 2012 Strategic Sustainability Plan*, November 16, 2012, http://www.opic.gov/sites/default/files/files/OPIC_Strategic_Sustainability_Plan_2012.pdf.

requirements, although environmental and other policy considerations may play a factor in their support.

Issues for Congress

OPIC presents a number of possible issues for Congress, chief of which could be a debate about its reauthorization. As part of the reauthorization process or general oversight of agency, Congress also may examine OPIC's product offerings, policy requirements for supporting projects, activity composition, and organizational structure.

Reauthorization

Congress may examine whether to reauthorize OPIC and, if so, the length of time for which to extend its authority and under what terms. In recent years, Members of Congress have introduced various types of bills concerning OPIC's authority (see **text box**).

Examples of Bills Related to OPIC's Authority

Some bills have focused exclusively on extending OPIC's authority. For example, in the 112th Congress, two bills were introduced to reauthorize OPIC through FY2015 (H.R.2762 and S.3627).

Other bills have sought to extend OPIC's authority, as well as to make adjustments to OPIC's activity. For instance, in the 111th Congress, S. 705 (Overseas Private Investment Corporation Reauthorization Act of 2009) would have reauthorized OPIC until September 30, 2013. The bill, which was reported out of committee, included provisions related to the transparency and accountability of OPIC's investment funds, OPIC's authority to conduct projects in Iraq, and worker rights. In addition, it included prohibitions on OPIC assistance to entities in countries designated as state sponsors of terrorism.

Bills on other policy issues have included a renewal of OPIC's authority. For example, in the 114th Congress, H.R. 2847 and S. 1933 (both entitled Electrify Africa Act of 2015) would increase U.S. government support, including through OPIC, to assist sub-Saharan African countries in increasing electricity access to support economic growth and other goals. The bills, among other things, would extend OPIC's authority until September 30, 2018.

The debate over reauthorization also could involve congressional consideration of other outcomes, such as privatizing or terminating the functions of OPIC (see "Organizational Structure" discussion further below).

Congressional views differ on the economic and foreign policy rationales for OPIC. One issue is the relationship between OPIC and the private sector.[72] Supporters argue that OPIC fills gaps in private sector political risk insurance and financing for investment and helps "level the playing field" for U.S. businesses competing against foreign companies supported by their own DFIs, while critics argue that OPIC distorts the flow of capital and resources away from efficient uses and crowds out viable, private sector alternatives for investment financing and insurance. Those in favor of OPIC also assert that it provides support for projects, markets, and sectors where government-backed financing and insurance can make the most difference (e.g., large-scale, long-term infrastructure projects, investments by small businesses, projects in developing countries, and during financial crises), while those critical of OPIC point out that the majority of U.S.

[72] For differing views on OPIC, see, for example; Theodore H. Moran, *Reforming OPIC for the 21st Century*, Peterson Institute for International Economics, Policy Analyses in International Economics 69, May 2003; Benjamin Leo, Todd Moss, and Beth Schwanke, *OPIC Unleashed: Strengthening US Tolls to Promote Private-Sector Development Overseas*, Center for Global Development, August 2013, http://www.cgdev.org/sites/default/files/OPIC-Unleashed-final.pdf; Ian Vasquez and John Welborn, *Reauthorize or Retire the Overseas Private Investment Corporation?*, CATO Institute, Foreign Policy Briefing No. 78, September 15, 2003, http://www.cato.org/publications/foreign-policy-briefing/reauthorize-or-retire-overseas-private-investment-corporation.

overseas investments occur without OPIC support and question why OPIC should take on risk when the private sector does not want to.

Other points of debate include the composition of OPIC's activities and its outcomes. Supporters argue that U.S. companies of all sizes benefit from OPIC and that OPIC charges interest, premia, and other fees for its support, while critics contend that OPIC, as a form of government intervention, is "corporate welfare" and that, by dollar value, larger companies are the primary beneficiaries. Supporters note OPIC's risk management practices, low non-performance and high recovery rates, and contributions to the Treasury, while critics express concern about the potential risks that OPIC's activities pose to U.S. taxpayers. Also, supporters argue that OPIC screens projects for "additionality" and that its activities contribute to U.S. jobs and exports, while critics question OPIC's opportunity costs and express concern that OPIC supports companies whose overseas investments may result in the outsourcing of U.S. jobs.

From a foreign policy perspective, supporters contend that OPIC's activities, on a demand-driven basis, advance U.S. development and national security interests by contributing to economic development in poor countries, while critics counter that the actual composition of OPIC's activities may not reflect U.S. foreign policy priorities and that the development benefits of OPIC's activities are questionable.

From an operational standpoint, some argue that OPIC would benefit from multi-year authorizations and "that the potential risk of a lapse undermines the private sector's confidence in OPIC's effectiveness, given that clients and projects require long-term planning and exit horizons."[73] Others argue that shorter extensions may provide opportunity for Congress to weigh in more frequently on OPIC operations through the lawmaking process. Questions may be raised about the extent that yearly renewals of authority through the appropriations process affect OPIC and what issues may be discussed in a broader debate about OPIC's authority.

Congress also may evaluate the impact of a lapse or expiration of OPIC's authority. For instance, OPIC's authority lapsed during April-September 2008. During this period, OPIC was able to disburse funds for already committed projects, but was unable to sign contracts for new projects.[74] This lapse in authority reportedly contributed to a backlog of projects in OPIC's pipeline of, by one estimate, about $2 billion of potential transactions.[75]

Product Offerings

OPIC currently provides political risk insurance, project and investment funds financing through direct loans and loan guarantees, and other services. Of congressional interest may be whether to expand OPIC's product offerings.

Equity Authority

A long-standing topic of debate is whether OPIC should be able to make equity investments in investment funds, in addition to the current debt financing that it provides for such funds.[76]

[73] Daniel F. Runde et al., *Sharing Risk in a World of Danger and Opportunities: Strengthening U.S. Development Finance Capabilities*, CSIS, December 2011, pp. 5-6.

[74] OPIC, *Congressional Budget Justification – Fiscal Year 2009,* p. iii.

[75] Daniel F. Runde et al., *Sharing Risk in a World of Danger and Opportunities: Strengthening U.S. Development Finance Capabilities*, CSIS, December 2011, p. 5.

[76] OPIC's enabling legislation provides it authority to establish a four-year pilot program under which it may make equity investments in projects in sub-Saharan Africa and in certain "Caribbean basin" countries (specified in 22 U.S.C. (continued...)

According to OPIC, it currently does not have resources to make limited partnership investments.[77] OPIC's FY2016 congressional budget justification includes a request for authority to use up to $20 million from its Credit Reform Appropriation and $20 million in transfer authority to invest in private equity funds that serve OPIC's mission.[78] Proponents argue that equity authority would enable OPIC to exert greater influence in an investment's strategic goals and economic, social, and governance policies; that foreign counterparts, many of whom have equity authority,[79] may be more likely to partner with OPIC on projects, increasing OPIC's ability to leverage its resources; and that OPIC could use the higher returns generally associated with equity investments to support more projects. Critics may raise concerns about the U.S. government taking an ownership stake in a private enterprise; the greater resources required for equity investments; and the greater risks and financial exposure associated with equity investments.

Technical Assistance

A point of debate among stakeholders is whether should have OPIC a consistent ability to provide grants, such as for technical assistance, for the projects that it supports. Those in favor of such proposals contend that providing technical assistance would enhance OPIC's effectiveness in supporting projects.[80] On the other hand, critics contend that providing OPIC with a significant grant function would duplicate the roles of USAID and the TDA in development assistance.

Policies

In supporting U.S. private sector investment overseas, OPIC seeks to balance multiple policy objectives, including foreign assistance, development, economic, environmental, and other policy goals. Congress could evaluate how OPIC might prioritize and balance these various objectives.

OPIC's environmental policies on greenhouse gas (GHG) emission reductions (referred to by some stakeholders as a "carbon cap"), in particular, have been the subject of congressional action and vigorous stakeholder debate (see **text box**). On one hand, such efforts may serve U.S. environmental policy goals and help to improve the sustainability of OPIC's activities. On the other hand, some U.S. businesses argue that the GHG emissions reduction effort can constrain their ability to utilize OPIC support and place them at a competitive disadvantage vis-à-vis foreign firms when competing for international project contracts (e.g., major infrastructure projects in sub-Saharan Africa). Other DFIs generally do not have the same level of policy restrictions that OPIC has, potentially enabling them to support a broader array of energy-related projects. From a development perspective, some argue that the GHG emission reduction effort prevents OPIC from supporting projects likely to have the largest development impact.

(...continued)

§2702) and marine transportation projects, subject to certain limitations and criteria. 22 U.S.C. §2194(g).

[77] OPIC, *Congressional Budget Justification – Fiscal Year 2016*, p. 8.

[78] Ibid.

[79] OPIC, *Congressional Budget Justification – Fiscal Year 2016*, p. 9; and U.S. Congress, House Committee on Foreign Affairs, Subcommittee on Terrorism, Nonproliferation, and Trade, *Testimony by Elizabeth Littlefield, President and CEO, OPIC*, Hearing on "Trade Promotion Agencies and U.S. Foreign Policy," 114th Cong., 1st sess., May 19, 2015, p. 12.

[80] For example, see Daniel F. Runde and Ashley Chandler, *Making the Case for OPIC*, CSIS, May 12, 2011, http://csis.org/publication/making-case-opic; and Benjamin Leo, Todd Moss, and Beth Schwanke, *OPIC Unleashed: Strengthening US Tools to Promote Private-Sector Development Overseas*, CGD, August 2013.

OPIC's Environmental Policy and Recent Developments

Based on FY2010 appropriations language (P.L. 111-117, §7079(b)) as well as other factors, OPIC has engaged in efforts to reduce the direct greenhouse gas (GHG) emissions associated with projects in its active portfolio (i.e., all insurance contracts in force and all guaranty and direct loans with an outstanding principal balance) by 30% over a 10-year period (June 30, 2008-September 30, 2018) and by 50% over a 15-year period (June 30, 2008-September 30, 2023).[81]

FY2015 appropriations language (P.L. 113-235, §7086(4)) includes a provision that would prohibit the use of OPIC funds, until September 30, 2014, and under certain conditions, for the enforcement of any rule or guideline implementing: (1) OPIC's GHG reductions policy; or (2) OPIC's proposed modification to its Environmental and Social Policy Statement (ESPS) related to coal.[82] Under the appropriations language, the use of appropriated funds by OPIC to implement the GHG emissions reduction policy and proposed coal-related modification to the ESPS would not be allowed *if* their implementation would prohibit (or have the effect of prohibiting) any coal-fired or other power-generation projects that satisfy *two* conditions: (1) the purpose of the project is to "provide affordable electricity in International Development Association (IDA)-eligible countries and IDA-blend countries"[83]; *and* (2) the purpose of the project is to "increase exports of goods and services from the United States or to prevent the loss of jobs from the United States." FY2014 appropriations language (P.L. 113-76, §7081(4)) also included this prohibition.

One outcome of the appropriations language is potentially increased opportunities for greater OPIC support for overseas coal-related projects in developing countries. Some stakeholders may argue that the appropriations language provides greater flexibility for OPIC to more effectively meet its development mandate and, in turn, support U.S. jobs and growth. Others may be critical of the language from an environmental perspective.

Activity Areas

One area of congressional interest could be whether OPIC's portfolio has an appropriate mix in terms of its development objectives. Some analysts and stakeholders, for example, have expressed concern about what they see as movement away from projects in sectors commonly viewed as contributing to poverty reduction (e.g., agriculture, infrastructure, and transportation) and toward projects in other sectors where development benefits may be less clear (e.g., finance and hotels). Drivers of such trends may have been environmental policies constraining support for large-scale infrastructure projects, as well as the need to balance financial risks and be self-sustaining. Congressional concern was voiced, for example, about OPIC's support for projects that do not necessarily, on their face, appear to align with OPIC's development mission, such as the construction of a shopping mall in Jordan, expanded billboard advertising in Ukraine, and hotels in Armenia and Georgia.[84] Others may counter that OPIC conducts development impact assessments of proposed projects and monitors the development impact of existing projects; they also may point to the development impacts of projects discussed in OPIC's annual policy reports, for instance in terms of host country employment.[85]

Another area of congressional interest could be considering opportunities for enhancing OPIC's support for specific geographical regions, countries, or sectors that are of U.S. policy priority. For example, some Members, business groups, and other stakeholders assert that there is potential for greater support by OPIC for U.S. investment in Africa. Proposals have included providing

81 OPIC, *OPIC – Environmental and Social Policy Statement*, October 15, 2010, p. 26.

82 OPIC's proposed changes are available at: http://www.opic.gov/sites/default/files/files/eisa-changes-policy.pdf.

83 For more information, see IDA, "IDA Borrowing Countries," http://www.worldbank.org/ida/borrowing-countries.html.

84 "McCaskill Seeks Greater Oversight of OPIC, TDA; Questions Funding Food Chains, Hotels," *Bloomberg BNA International Trade Daily*, December 13, 2013.

85 For example, see OPIC, *Annual Report on Development Impact – Fiscal Year 2013*, https://www.opic.gov/sites/default/files/files/report_final_9242014(1).pdf.

additional federal resources to support OPIC investment promotion activity in Africa and/or directing OPIC and other federal agencies to dedicate designated amounts of financing and personnel to foster greater U.S. investment in Africa.[86] On one hand, greater resources may increase capacity to promote investment, but on the other hand, federal agencies' allocation of funds for trade and investment promotion is generally demand-driven. Thus, for example, if U.S. firms do not seek such assistance due to lack of sufficient commercial interest, such funds may not be fully tapped. At the same time, promotion of development finance opportunities by OPIC could motivate U.S. companies to become more engaged.

Organizational Structure

Congress may wish to examine OPIC's organizational structure and oversight in terms of the agency's effectiveness and efficiency in fulfilling its mandate. What follows are three possible areas of consideration.

- **Reorganization:** Congress could consider merging OPIC with other federal agencies as part of broader reorganization proposals. For example, in 2012, the President proposed reorganizing the business- and trade-related functions of OPIC and five other federal entities into one department to streamline the federal government and make it more effective.[87] The President reiterated the proposal in his FY2016 budget request.[88] Other proposals offered by stakeholders include consolidating federal agencies focused on promoting international development through private sector tools (such as OPIC, TDA, and certain elements of USAID) and consolidating federal trade finance agencies (such as OPIC and the Ex-Im Bank).[89] While reorganization prospects in the near term are unclear, the renewed focus has rekindled policy debates about whether reorganization would reduce costs and improve the effectiveness of trade policy programs, or undermine the effectiveness of federal agencies, given their differing missions.[90]
- **Privatization or Termination:** Congress could consider privatizing or terminating OPIC, the feasibility of which previously has been analyzed.[91] Supporters of such options may argue that OPIC's self-sustaining nature is proof that there is no market failure; that OPIC competes with or crowds out the private sector, which is more efficient and better suited than the federal government to support investments; and that OPIC's activities impose potential costs and risks on U.S. taxpayers, since they are backed by the full faith and credit of the U.S.

[86] See for example, in the 114th Congress,H.R. 1103.

[87] The White House, Office of the Press Secretary, "Government Reorganization Fact Sheet," press release, January 13, 2012, http://www.whitehouse.gov/the-press-office/2012/01/13/government-reorganization-fact-sheet.

[88] OMB, *Budget of the United States Government, Fiscal Year 2016*, "A Government of the Future," p. 81.

[89] For example, see Ben Leo and Todd Moss, *Bringing US Development Finance into the 21st Century*, Center for Global Development, July 20, 2015, http://www.cgdev.org/publication/ft/bringing-us-development-finance-21st-century-0.

[90] CRS Report R42555, *Trade Reorganization: Overview and Issues for Congress*, by (name redacted).

[91] For example, see J.P. Morgan Securities, Inc., *Overseas Private Investment Corporation: Final Report on the Feasibility of Privatization*, New York, February 7, 1996, cited in GAO, *Overseas Investment: Issues Related to the Overseas Private Investment Corporation's Reauthorization*, GAO/NSIAD-97-230, September 1997, p. 24, http://www.gao.gov/archive/1997/ns97230.pdf.

government.[92] Those in favor of OPIC may argue that the federal government plays a unique role in addressing market failures; that OPIC's backing by the full faith and credit of the U.S. government may make certain transactions more commercially attractive or give OPIC leverage to guarantee repayment in a way that is not available to the private sector; and that federal investment support is critical when there is a shortfall in private sector financing and insurance.

- **Internal Oversight:** Congress could examine OPIC's own internal oversight structure. Presently, USAID's Inspector General has legal authority to conduct reviews, investigations, and inspections of OPIC's operations and activities,[93] while external auditors conduct audits of OPIC's financial statements and report findings to OPIC's Board of Directors.[94] One possibility is establishing an OPIC-specific Inspector General.[95] Some may support this approach given differences in OPIC's private sector financing focus and USAID's grant-making functions. Opponents may assert that the current OPIC-USAID arrangement suffices or express concern about the additional resources a new Inspector General could require. Other possibilities include directing Ex-Im Bank's Inspector General to conduct OPIC oversight. Some may support this on the basis that Ex-Im Bank and OPIC offer some similar financing and insurance products, though others may express concern because of differences in the two agencies' missions and stakeholders.

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[92] For example, see Bryan Riley and Brett D. Schaefer, *Time to Privatize OPIC*, The Heritage Foundation, May 19, 2014, http://www.heritage.org/research/reports/2014/05/time-to-privatize-opic.

[93] 22 U.S.C. §2199(e).

[94] 22 U.S.C. §2199(c).

[95] See, for example, H.R. 2847 and S. 1933, introduced in the 114th Congress.