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Overseas Private Investment Corporation (OPIC)

Background

OPIC, a wholly-owned U.S. government corporation and development finance institution (DFI), operates under the Foreign Assistance Act of 1961 (FAA), as amended (22 U.S.C. §2191 *et seq.*). Spun out of the U.S. Agency for International Development (USAID) in 1971 to focus on market-oriented investment, OPIC aims to promote economic growth in developing and emerging economies by financing overseas investments and insuring against political risks of investing abroad, such as currency inconvertibility, expropriation, and political violence, for qualifying U.S. private investors. OPIC presents reauthorization, organizational structure, funding and other issues for Congress.

Table I. OPIC Financial Products Overview

OPIC Financial Product	Examples of OPIC Commitments
Political risk insurance: Protects against political risks of investing overseas, up to \$250 million per transaction.	Since 2004, has committed over \$300 million in political risk insurance to Apache Corp. for oil and gas development in Egypt.
Financing: Up to \$250 million and up to 20 years through either fixed-rate <u>direct loans</u> for projects significantly involving U.S. small business, or <u>investment guarantees</u> of OPIC repayment of loan if the borrower defaults. Can include limited-recourse <u>project finance</u> (structured so that loan repayment comes from project).	Approved a \$750,000 loan in 2009 for a Utah-based small business to expand heavy equipment rental business in Nigeria, and \$95 million in financing in 2013 for a wind power plant in Pakistan with General Electric wind turbines. In 2013, completed a \$245 million, 20-year project finance loan for a hydroelectric power plant in Chile, sponsored in part by a Virginia-based subsidiary of a Chilean firm.
Investment fund support: Provides senior debt financing to supplement equity raised by funds (privately owned and managed capital sources).	Approved \$125 million in financing in 2009 for a micro-finance fund in Latin America, and \$80 million in financing in 2014 for an affordable housing fund in sub-Saharan Africa.

Source: CRS, based on OPIC publications, various years.

Authorization status. Since reauthorizing OPIC in December 2003 for nearly four years through FY2007 (P.L. 108-158), Congress generally has extended its authority through appropriations legislation. The FY2017 omnibus appropriations act (P.L. 115-31) extended OPIC’s authority until September 30, 2017. Certain bills introduced in the 114th Congress to expand electricity access in sub-Saharan

Africa would have renewed OPIC on a multi-year basis, but these provisions were not included in the final legislation (P.L. 114-121). OPIC may face more scrutiny in the 115th Congress, resulting in part from President Trump’s FY2018 budget request to eliminate OPIC funding, the ongoing debate over the Export-Import Bank (Ex-Im Bank), and debate over the U.S. government’s size and scope.

Leadership. OPIC, by statute, has a Board of Directors with 15 members appointed by the President with the advice and consent of the Senate. The Board has eight “private sector” Directors (with requirements for small business, labor, and other representation), appointed to three-year terms, and seven “federal government” Directors (including the OPIC President, the USAID Administrator, the U.S. Trade Representative, and a Labor Department officer), who serve at the pleasure of the President. A quorum for the Board to transact business requires eight Directors. The Board provides policy guidance, and major OPIC commitments require its approval. The Board meets four times a year. OPIC participates in the interagency Trade Promotion Coordinating Committee (TPCC), and collaborates periodically on projects with USAID, Ex-Im Bank, and the Trade and Development Agency (TDA).

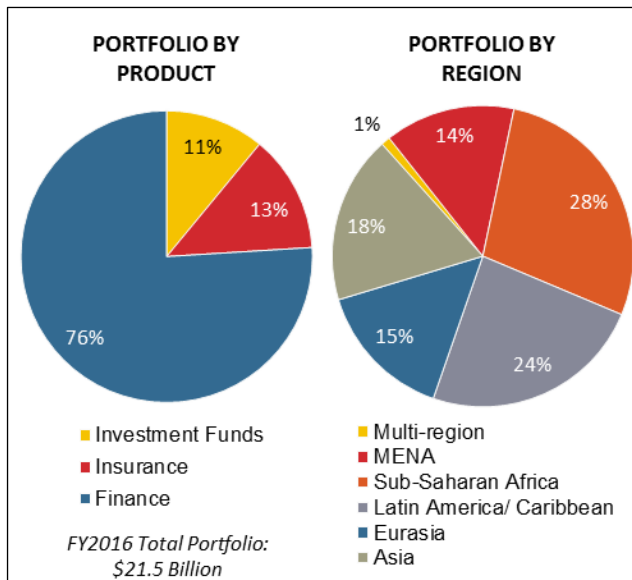
Requirements. OPIC operates under the Secretary of State’s policy guidance. OPIC must take into consideration economic and social development impacts when determining whether to support a project. Other criteria include investor eligibility based on sufficient connection to the United States, U.S. economic impact, environmental impact, worker rights, and development effects on the country receiving the investment. U.S. small businesses and sub-Saharan Africa are focus areas. Military production and sales are among “categorically prohibited sectors.”

Funding. The FY2017 appropriations act provided \$70 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 had an estimated 281 full-time equivalent employees in FY2017. The President’s FY2018 budget requests \$60.8 million to manage OPIC’s existing portfolio and start “orderly wind-down activities.”

The FAA directs OPIC to operate “on a self-sustaining basis, taking into account... the economic and financial soundness of projects.” OPIC charges interest, premia, and other fees for its services to cover operations. OPIC returns more funds to the U.S. Treasury than it receives in appropriations. On a cash basis, OPIC reported remitting \$239 million in FY2016. On a budgetary basis, it finances loans by borrowing from the U.S. Treasury, and investment guarantees by issuing certificates of participation in U.S. debt capital markets. It repays the Treasury through collection of loan fees, repayments, and default recoveries.

Activity. OPIC is “demand-driven,” providing services based on user interest. OPIC support is available in over 160 countries, while barred in some other countries due to sanctions laws and other restrictions (such as the U.S. prohibition on operations in China since the Tiananmen Square incident). OPIC makes commitments in various sectors, including infrastructure, energy, financial services, technology, education, and health care. OPIC reported making \$3.7 billion in new commitments in FY2016. Its overall portfolio reached \$21.5 billion— below its \$29 billion statutory cap but nearly double its 2008 portfolio.

Figure 1. OPIC Portfolio, FY2016



Source: CRS, based on OPIC data.

Risk management. OPIC’s activities are backed by the full faith and credit of the U.S. government. OPIC must conduct its operations with regard to risk management principles. It assesses credit and other risks of proposed transactions, monitors commitments, and guards against potential losses through reserves (\$5.6 billion in reserves in FY2016). OPIC works to avoid potential claim situations before they arise. It reports total recoveries of 103% (including interest) of total claims settlement.

Impact. OPIC monitors the impact of active projects by site visits of randomly selected projects and the annual self-reporting that it requires of clients. OPIC estimates that its FY2015 commitments of \$4.4 billion will bring \$14.2 billion in new investment, and over a five-year period from FY2015, create about 20,000 host country jobs, and support 400 U.S. jobs through \$264 million in U.S. exports.

Issues for Congress

Reauthorization debate. One possible issue before Congress is whether to reauthorize, reorganize, privatize, or terminate OPIC. The Trump Administration’s interest in government-wide reorganization to increase the effectiveness, efficiency, and accountability of the government may factor into congressional consideration.

Supporters argue that OPIC fills gaps in private sector investment support arising from market failures (e.g., financial crises, risk levels) and helps U.S. businesses

compete against competitors backed by OPIC’s foreign counterparts. Critics argue that OPIC diverts capital away from efficient uses and crowds out viable, private alternatives, and they take issue with OPIC assuming risks unwanted by the private sector. OPIC also intersects with the broader investment debate: some tie U.S. outbound investment with U.S. job loss through offshoring, while others argue that overseas investment supports U.S. jobs and exports. Regarding foreign policy, supporters contend that OPIC advances U.S. foreign policy interests by contributing to economic development in poor and conflict-affected countries through positive results and on a demand-driven basis; opponents question OPIC’s development benefits, criticizing, for instance, its support for particular projects or overall portfolio composition.

Products. The range of financial products that OPIC offers is another possible issue for Congress. In recent budget justifications, OPIC has requested to use part of its budget to invest in private equity funds that serve its mission. Equity authority could enable OPIC to exert greater influence on a project’s strategic goals and policies and allow OPIC to use the higher returns associated with equity investments to support more projects. Yet, it also involves the U.S. government taking an ownership stake in a private enterprise, requires greater resources, and entails financial risks. Many foreign DFI counterparts have equity authority.

Policies. Specific OPIC policies, especially environmental policies, have been contested. Based on the FY2010 appropriations act (P.L. 111-117, §7079(b)) and other factors, OPIC has aimed to reduce its projects’ greenhouse gas emissions and expand its support for renewable energy. Recent appropriations acts have barred OPIC from using its funds, under certain conditions, to enforce action pursuant to the FY2010 appropriations act or a proposed 2013 policy change to limit financing for coal-fired power plants. This prohibition could expand opportunities for OPIC support for overseas coal projects, which could help OPIC to advance its development mandate in energy-poor countries, but it also could raise environmental concerns.

Internal oversight. USAID’s Inspector General conducts reviews, investigations, and inspections of OPIC’s operations, while external auditors review OPIC’s financial statements and report findings to OPIC’s Board. Congress could examine this process.

International context. OPIC and foreign DFIs are playing a more prominent role as foreign assistance has declined, private investment has risen, and capital needs for infrastructure and other projects have grown overseas. Transformative changes in the DFI landscape, with the growing role of China and other emerging markets and the establishment of new multilateral institutions, raise questions about OPIC’s competitiveness and whether new international rules are needed to govern DFI activity.

More information. See CRS Report 98-567, *The Overseas Private Investment Corporation: Background and Legislative Issues*, by Shayerah Ilias Akhtar.

Shayerah Ilias Akhtar, Specialist in International Trade and Finance

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