Economic Tools Mapping

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

Market Building Initiative: A Program with the Aspen Institute
Economic Tools Mapping
Overseas Private Investment Corporation (OPIC)

Overview

Established as an agency of the U.S. Government in 1971, OPIC operates on a self-sustaining basis at no net cost to American taxpayers. The Overseas Private Investment Corporation (OPIC) is the U.S. Government’s development finance institution. OPIC mobilizes private capital to help solve critical world challenges and in doing so, advances U.S. foreign policy. Because OPIC works with the U.S. private sector, it helps U.S. businesses gain footholds in emerging and frontier markets, catalyzing revenues, jobs, and growth opportunities at home and abroad. OPIC achieves its mission by providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds.1

Political risk insurance activities cover currency inconvertibility, expropriation, and political violence. Financing provides medium and long term direct loans and guarantees for eligible investments in developing countries and emerging markets. Financing and insurance are available to U.S. investors, lenders, contractors, exporters, and NGOs.2

Structure

OPIC has three primary activities in its mission of mobilizing private capital for developmental benefit and U.S. private sector gain: political risk insurance, financing, and investment funds.

i) Insurance:
OPIC offers investors political risk insurance, financing, and investment funds aimed at increasing the palatability of risk and spurring investment by the private sector in developing country contexts. Political risk insurance is available to U.S. investors, contractors, exporters and financial institutions involved in international transactions. This insurance can cover currency inconvertibility, expropriation, and political violence, and is available for investments in new ventures, expansions of existing enterprises, privatizations and acquisitions with positive developmental benefits. The insurance seeks to cover possible damage or loss on tangible assets such as trucks, manufacturing or drilling equipment, the value of an investment, and on earnings or return of the investment. OPIC can cover up to $250 million per project for up to 20 years and offers co- and re-insurance with private market carriers for large programs.3 Small businesses are targeted through flexible programs. The amount of coverage is equal to the book value of the insured investment and is backed by the full faith and credit of the U.S. Government.4

ii) Financing:
In addition to Insurance, OPIC provides a variety of financing, both through medium- and long-term funding. This is done through direct loans and loan guaranties to eligible investment projects in developing countries and emerging markets. OPIC can provide financing in countries where conventional financial institutions often are reluctant or unable to lend on such a basis. Small and Medium-Enterprise Financing is available for businesses with annual revenues

1 OPIC Website, www.opic.gov
2 OPIC Website, www.opic.gov
3 OPIC Insurance, http://www.opic.gov/insurance
under $250 million while Structured Financing focuses on U.S. businesses with annual revenues over $250 million and supports large-scale projects that require large amounts of capital, such as infrastructure, telecommunications, power, water, housing, airports, hotels, high-tech, financial services, and natural resource extraction industries. OPIC can also provide long-term working capital and multiple-year capital expenditure programs in amounts greater than one financial institution can provide independently. For financing, OPIC expects a U.S. equity or debt investor to assume a meaningful share of the risk, generally in the range of 25 percent of the project cost. Exceptions to the amount of investment requirement may be made in cases where U.S. brand-name franchisors, operators or contractors are significantly involved in the project on a long-term basis.

iii) Investment Funds:

In response to the critical shortfall of private equity capital in developing countries, OPIC also provides support for the creation of privately-owned and managed investment funds making direct equity and equity-related investments in new, expanding or privatizing emerging market companies. OPIC-supported funds assist emerging market economies in securing long-term growth capital, accessing management skills, and securing financial expertise, all of which are key factors in expanding economic development. OPIC-supported funds are among the largest providers of private equity capital to emerging markets, totaling $3.6 billion to more than 50 private equity funds.

Accountability and impact evaluation are a critical part of all OPIC activities. OPIC has established an Office of Accountability to assess and review complaints about OPIC-supported projects. The Office of Accountability gives local communities, which may be materially, directly and adversely affected by an OPIC-supported project, and project sponsors a means of raising complaints, independently from OPIC operations. Its mandate, established by OPIC's Board of Directors in response to guidance from the U.S. Congress, is to deliver problem-solving and compliance review services in a manner that is fair, objective and transparent, thereby enhancing OPIC's mission effectiveness. Impact evaluation, economic, human rights, and environmental, is carried out on each project receiving financing or insurance and is a requisite piece considered in eligibility.

Rules

OPIC services are available for new and expanding business enterprises in more than 150 countries worldwide and are available to U.S. citizens, corporations, partnerships, or other associations created under the laws of the United States, its states or territories, and beneficially owned by U.S. citizens. Additionally eligible are foreign corporations that are more than 95 percent owned by investors eligible under the above criteria, other foreign entities that are 100 percent U.S.-owned.

All projects are governed by regulations on developmental benefit for the U.S. and host country, human rights laws, and environmental standards. There are categorically prohibited sectors which cannot receive

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8 OPIC Investment Funds, http://www.opic.gov/investment-funds
OPIC benefits. These include projects which: degrade critical natural habitats; involve disruptive hydrology; impact inhabitant livelihood, displace more than 5,000 persons; affect biodiversity; involve ozone depleting substances or persistent organic pollutants; impact world heritage sites; are extractive or infrastructural in protected areas; are established in contemplation of terminating U.S. operations or that might impact US jobs; involve gambling, tobacco, or alcohol (if contrary to local religious or cultural norms); involve adult or political media; are oriented toward military production or sales; or produce pharmaceuticals or equipment not FDA approved.  

OPIC’s statutory requirements regarding worker rights are fairly stringent as well and OPIC may operate in countries if they have, or are taking steps to adopt and implement, laws that extend international worker rights. All activities receiving assistance must include the right of association, the right to organize and bargain collectively, the prohibition of forced or compulsory labor, minimum age for employment and acceptable conditions of work with respect to minimum wages, hours of work, and occupational health and safety provisions. Every contract has legally binding requirements to this effect and all projects are reviewed for compliance.  

Financing

Though OPIC submits an annual appropriations budget request of approximately $50-100 million, this amount is offset by collections and OPIC operates at no net cost to the U.S. taxpayer. As for the financing by OPIC abroad, amount and disbursement terms vary by contract.

Operations and outcomes-

To date, OPIC projects have generated $74 billion in U.S. exports and supported more than 275,000 American jobs. Insurance has facilitated the private sector’s ability to invest in particularly austere environments including the risky Democratic Republic of Congo, Iraq, Afghanistan, and Pakistan where most insurers refuse to guarantee and has resulted in evidenced economic growth in these countries. OPIC investment has similarly provided the financing for projects which the private sector would otherwise have been unable to back independently, generating development through commercially sound investments in developing countries. Since the inception of its investment funds program in 1987, OPIC’s funding commitments (as of FY 2009) have totaled $3.6 billion to more than 50 private equity funds. The OPIC funds have invested $4.6 billion in over 470 privately-owned and managed companies, the vast majority of which are small and medium-sized entities, located across 53 developing countries that are eligible for OPIC support. OPIC-supported funds are among the largest providers of private equity capital to emerging markets. The beneficial impact of OPIC’s credit support of funds that invest in companies is significantly greater than the amount of capital that OPIC contributes directly to the funds: private equity direct investment creates a multiplier effect as new capital attracts additional investment and financing in companies.

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13 Budget Requests and Performance, http://www.opic.gov/about/reports-plans
14 OPIC Website, http://www.opic.gov/about-us
16 OPIC Investment Funds, http://www.opic.gov/investment-funds
Box 1- Operations: DataSpace Partners and Nord Resources

DataSpace Partners LLC – DataSpace Partners was a limited liability company existing under the laws of Russia. DataSpace was funded by two U.S. Sponsors and engaged in a $604 million dollar project to design, build and operate data centers in Moscow and the surrounding region. The project aimed to have a positive developmental impact through infrastructure, training, and job creation as well. The investment by the sponsors supported information infrastructure in Russia and was expected to have a positive human capital impact over the next five years through training. The OPIC loan received was a $150 million debt tranche with 10 year tenure, including a three-year grace period on principal repayment. The project had a beneficial environmental impact, as the renovation and outfitting projects were screened by OPIC’s environmental guidelines. The benefits included access to potable water, appropriate waste disposal, and removal of solid waste. Appropriate life safety and fire protection measures were incorporated as well.

Nord Resources– A joint venture holder in Sierra Rutile Limited, a rutile mining facility in Sierra Leone, Nord Resources filed for OPIC insurance to protect against instability in the politically agitated national environment that might result in commercial loss. When, in January of 1995, government troops and rebel forces began engaging near the mine site, the facility was evacuated and the rebel forces began taking hostages and gained possession of the mine site resulting in damage. After a request for additional information and verification it was determined that damage had occurred as a direct result of political violence and that the property damaged was covered by OPIC contracts. The Nord Resources Corporation was compensated $15,704,500 for their loss under their political risk insurance coverage.


Further Resources

- OPIC funds- http://www.opic.gov/investment-funds/full-list