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## The Case against the Overseas Private Investment Corporation OPIC Is Obsolete, Ineffective, and Harms the Poor

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The Overseas Private Investment Corporation (OPIC) is a U.S. federal government agency with three key policy objectives:

1. Stimulate economic development in developing countries;
2. Make foreign policy gestures on behalf of the U.S. government; and
3. Help U.S. businesses operating in other countries, particularly in the renewable energy sector.

OPIC pursues its mission by offering a variety of financial products including loan guarantees, direct loans, and political risk insurance. It also supports various investment funds.

The agency's charter requires periodic reauthorization by Congress, without which it would be forced to close. The current version of its charter expires on September 30, 2015. Congress should allow OPIC's charter to expire.

OPIC is institutionally ill-suited to its mission and harms poor people around the world. Its investments in developing countries, while well-intentioned, fail to offer real beneficial results. That is because OPIC's investment decisions are heavily politicized, which means that many OPIC-financed projects, rather than help the least well-off, end up enriching the politically connected.

**Origins and History.** In 1969, Congress passed and President Richard Nixon signed into law the Foreign Assistance Act, which created OPIC.<sup>1</sup> The new agency opened its doors in 1971. Its initial allocation was \$20 million each for fiscal years 1970 and 1971, equivalent to \$121.8 million (1970) and 116.9 million (1971) in 2015 dollars.<sup>2</sup> Since its beginning, OPIC's total portfolio has grown by more than two orders of magnitude in real terms. Today, OPIC has more than 200 employees, a total portfolio of approximately \$18 billion, and did \$2.96 billion in business in 2014.<sup>3</sup> Its administrative expenses in 2012 were \$54.9 million.<sup>4</sup>

Over OPIC's 40-plus-year lifespan, it has played a role in more than \$200 billion worth of investments, and claims to have supported approximately 278,000 jobs. That amounts to approximately \$719,000 per job supported. OPIC's current President and CEO is Elizabeth L. Littlefield. Her previous employers include JP Morgan, which received \$75 million in OPIC financing in 2014.<sup>5</sup>

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**Helping Big Business.** Traditionally, OPIC’s biggest beneficiaries have been big businesses. In a 2003 study, the Cato Institute’s Ian Vasquez and John Welborn found that OPIC’s top 10 beneficiaries accounted for 87 percent of its \$1.2 billion of business in 2002.<sup>6</sup>

In 2014, journalist Timothy P. Carney discovered such OPIC financing projects as \$250 million for Sun Edison to build a solar farm in South Africa, and \$150 million in insurance to subsidize new Citibank branches in politically risky countries such as Pakistan, Jordan, and Egypt. Carney asks an important question: “Citibank is America’s third-largest bank, with total assets of \$1.8 trillion, yet it can’t line up insurance without taxpayer backing?”<sup>7</sup>

Veronique de Rugy of the Mercatus Center at George Mason University calls OPIC, along with the Export-Import Bank, “the poster children for programs that privilege big lenders,” noting that, “both programs extend loan guarantees allowing lenders—including many large banks such as JP Morgan, Citibank, or Wells Fargo—to transfer most of the risk of doing business to U.S. taxpayers while cashing in large fees and interest payments (albeit at lower rates than commercial loans) from the borrowers.”<sup>8</sup>

Other OPIC beneficiaries over the years have included large companies such as Bank of America, Intergen (a joint venture of oil company Shell and the engineering and construction firm Bechtel), Ritz-Carlton and Hyatt Hotels, and the now-defunct Enron.<sup>9</sup>

One of OPIC’s primary missions is to accelerate economic development in poor countries. There are 48 countries the United Nations classifies as least-developed countries (LDCs). These 48 LDCs accounted for less than 5 percent of OPIC’s business over the period 2011-2013.<sup>10</sup> While this is still more than the LDCs’ 1.9 percent global share of total foreign direct investment,<sup>11</sup> OPIC’s actions indicate that it prefers to do business with richer countries.

**Expensive, Yet Ineffective.** OPIC’s 2014 annual report touts that the agency’s \$2.96 billion of business that year supported 9,000 jobs.<sup>12</sup> This amounts to nearly \$329,000 per job “supported,” to use OPIC’s terminology. While that may be much lower than its lifetime average of \$719,000, it is still grossly inefficient and costly in a way that would never fly in the private sector. Also, note the clever terminology which points only to jobs “supported,” rather than jobs “created” or “saved.” Such phrasing is vague enough to make OPIC look good without having to prove it actually does much of anything.

OPIC’s own numbers reveal it to be an incredibly inefficient way to support jobs given that U.S. per capita GDP, one of the world’s highest, is only \$54,629.<sup>13</sup> This is important, since every time OPIC guarantees a loan to a big bank or a renewable energy company, it deprives less-connected entrepreneurs of that capital, even if these entrepreneurs’ projects would create greater value for people in developing countries.

**Reducing the National Debt—Not.** OPIC claims to have reduced the federal debt by \$1.6 billion during the period 2010-2013.<sup>14</sup> However, OPIC’s modest deep-decimal debt reduction claims are based on dodgy accounting.

Most government agencies, and virtually the entire private sector, use fair-value accounting standards. OPIC does not. Instead, it opts for Federal Credit Reporting Act (FCRA) standards, which use a discount rate equal to U.S. Treasury bond yields. Treasury bonds are backed by the full faith and credit of the U.S. government, so markets treat them as essentially riskless. As a result, they have a very low interest rate. Other, riskier investments, such as stocks, bonds, or OPIC's own financial products, tend to have higher yields than Treasury bonds. Therefore, OPIC can claim it makes money for the government because its portfolio outperforms Treasury bonds as an investment opportunity. What this really means is that OPIC's portfolio succeeds in clearing the lowest of all possible hurdles.

The Export-Import Bank's similar decision to use FCRA standards to claim a profit caused some controversy last year, when a 2014 Congressional Budget Office study revealed that under fair-value standards, it expected Ex-Im to lose about \$2 billion during the period 2015-2024.<sup>15</sup> It is possible that OPIC's finances may also show a loss under fair-value standards and their more realistic discount rates. Similarly, OPIC's most recent financial report notes that the agency "recognizes the sensitivity of its projections to certain assumptions."<sup>16</sup> Notably, the phrase "fair value" does not appear in the 40-page report.

Even according to its own rosy numbers, OPIC is spectacularly ineffective at debt reduction. During 2010-2013, the period when OPIC claims to have reduced the national debt by \$1.6 billion, net federal debt increased by \$4.6 trillion, according to the Office of Management and Budget (OMB).<sup>17</sup> So for every \$3,000 of debt the federal government incurred during that time, OPIC saved about one dollar, ignoring opportunity costs. Even this generous and unrealistic omission means OPIC spares future taxpayers from roughly 1/30<sup>th</sup> of 1 percent of recent deficit spending.

Accounting shenanigans aside, if OPIC were to somehow make a profit, it would crowd out private investment opportunities. If it makes a loss, then OPIC is diverting capital away from other uses that could create greater value—which is the same as saying OPIC actually destroys value, both for U.S. taxpayers and the world's poor.

**Human Rights Concerns.** One of OPIC's financial products is political risk insurance. Its policies are an Econ 101 textbook case of moral hazard.

In some countries, political risk involves threats of terrorism or war. But in many of the countries where OPIC does business, political risk means corrupt or predatory governments prone to nationalizing private assets. By offering political risk insurance, OPIC enables this bad government behavior. Predatory behavior and political instability create obvious disincentives to invest in such countries, but subsidized political risk insurance greatly reduces those beneficial disincentives. As a result, predatory or unstable governments continue to receive foreign investment, while their people remain poor. Meanwhile, American taxpayers bear the risk, to the tune of up to \$250 million per project.<sup>18</sup>

In addition to being suspect from an economic development and human rights perspective, OPIC's expropriation insurance is problematic as a foreign policy tool. Many predatory governments are not exactly allies of the U.S. government, so OPIC's expropriation

insurance may actually incentivize them to nationalize OPIC-financed projects. In effect, the U.S. government is paying its enemies to thumb their nose at it.

A more effective way to increase foreign investment in developing countries is for their governments to enact sound economic policies and respect property rights. How to encourage them to do so is well beyond this paper's scope. But OPIC's attempt to treat a symptom may actually make the root disease even worse, by reducing incentives for reform.

Moreover, OPIC's political risk insurance is not even necessary to encourage investment in developing countries. Companies that choose to invest in developing markets can purchase political risk insurance from private firms. These are far less problematic because, unlike OPIC, they put their own capital at risk. The threat of loss pushes them to put great effort into accurately pricing a project's risks, and to avoid projects in countries where the risk of expropriation or conflict is too great. OPIC is guided by politics, not profit and loss, which hampers its decision making abilities, and makes its insurance artificially cheap, encouraging imprudent risk-taking.<sup>19</sup>

**Green Energy Boondoggles.** In recent years, OPIC has increasingly emphasized environmental factors in its investment decisions. In 2014, more than 40 percent of its resources went to renewable energy projects.<sup>20</sup> Environmental advocacy groups such as Greenpeace largely support OPIC's recent emphasis on renewable energy, but still criticize OPIC's continued support of energy-related projects that use fossil fuels. As a post on the Greenpeace blog asked, "[W]hy should taxpayer funds be used at all to support an entrenched industry that doesn't need so much help attracting investors?"<sup>21</sup> That is a good question, but it is also worth asking why OPIC finances projects based on technologies that have yet to prove viable.

Some of OPIC's green projects in 2014 include:

- \$46 million worth of insurance for an unnamed "Eligible U.S. Investor" for a wind power project in Kenya.<sup>22</sup>
- \$50 million in financing to General Electric to for a wind power project in Pakistan.<sup>23</sup>
- \$50 million to Indochina Capital Corporation's investment fund in Vietnam, which is ranked 119<sup>th</sup> out of 175 countries in Transparency International's corruption index.<sup>24</sup> The financing is targeted towards undefined "renewable resources."<sup>25</sup>

OPIC's apparent capture by green interests has been in the works for some time. Greenpeace and Friends of the Earth sued OPIC and the Export-Import Bank in 2002. They settled the suit in 2009, after both agencies agreed to commit increasing financing for renewable energy.<sup>26</sup>

In October 2009, following the settlement, OPIC put \$505 million into six private equity funds that emphasize green investments.<sup>27</sup> The Virgin Green Fund, the recipient of \$100 million, is owned by Richard Branson, who has an estimated net worth of \$5 billion.<sup>28</sup> His fund focuses its efforts on North America and Europe, not the developing world.<sup>29</sup> As noted elsewhere in this section, OPIC has emphasized renewable energy projects to the extent that

they now consume 40 percent of its business. If this makes environmental activists happy, it must make that sectors corporate CEOs even happier.

**Conclusion.** The Overseas Private Investment Corporation’s charter expires on September 30, 2015. Congress should let it expire, and allow the agency to close. OPIC seeks to help poor people in developing countries, advance U.S. foreign policy objectives, and support U.S. businesses that invest overseas. It fails at every one of those goals.

Only about 5 percent of OPIC’s business goes to countries categorized as among the least developed by the United Nations. OPIC overwhelmingly works with big businesses, with its top 10 list beneficiaries capturing nearly 90 percent of its business in some years. The jobs OPIC supports come at a cost of nearly \$329,000 each. The agency’s political risk insurance program encourages bad behavior by predatory governments around the globe. More than 40 percent of OPIC’s business goes to a single industry—renewable energy—known more for its political acumen than creating consumer value.

OPIC’s reauthorization debate holds an important lesson for reformers seeking to trim the size of government. The controversy surrounding OPIC and similar agencies, such as the Export-Import Bank, only came to a head because those agencies have expiring charters. More agencies should have these automatic sunsets, which provide opportunities for reformers to close obsolete, ineffective, or corrupt agencies. If an agency pursues its mission effectively, it should have no problem justifying itself before Congress every few years.

## Notes

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<sup>1</sup> Foreign Assistance Act of 1969, Title 4, <http://www.gpo.gov/fdsys/pkg/STATUTE-83/pdf/STATUTE-83-Pg805.pdf>.

<sup>2</sup> Foreign Assistance Act of 1969, Title 4, Section 232. Inflation adjustment calculations performed on the inflation calculator on the Federal Reserve Bank of Minneapolis’ homepage, <https://www.minneapolisfed.org/>.

<sup>3</sup> Overseas Private Investment Corporation, 2014 Annual Report, 4, <https://www.opic.gov/sites/default/files/files/opic-fy14-annual-report.pdf>.

<sup>4</sup> Shayerah Ilias Akhtar, “The Overseas Private Investment Corporation: Background and Legislative Issues,” Congressional Research Service Report, September 25, 2013, 5, <https://www.fas.org/sgp/crs/misc/98-567.pdf>.

<sup>5</sup> OPIC 2014 Annual Report, 35.

<sup>6</sup> Ian Vasquez and John Welborn, “Reauthorize or Retire the Overseas Private Investment Corporation?” *Foreign Policy Briefing* No. 78, Cato Institute, September 15, 2003, <http://object.cato.org/sites/cato.org/files/pubs/pdf/fpb78.pdf>.

<sup>7</sup> Timothy P. Carney, “Republicans Try to Sneak Corporate Welfare Agency OPIC Through the House,” *Washington Examiner*, May 6, 2014, <http://www.washingtonexaminer.com/republicans-try-to-sneak-corporate-welfare-agency-opic-through-the-house/article/2548134>.

<sup>8</sup> Veronique de Rugy, “Corporate Welfare and the Overseas Private Investment Corporation,” *Creators Syndicate*, July 2, 2015, [http://mercatus.org/expert\\_commentary/corporate-welfare-and-overseas-private-investment-corporation](http://mercatus.org/expert_commentary/corporate-welfare-and-overseas-private-investment-corporation).

<sup>9</sup> Michael D. Tanner, “*Leviathan on the Right: How Big-Government Conservatism Brought Down the Republican Revolution*, (Washington: Cato Institute, 2007), 160.

<sup>10</sup> Bryan Riley and Brett D. Schaefer, “Time to Privatize OPIC,” Heritage Foundation Issue Brief No. 4224, May 19, 2014, 3, <http://www.heritage.org/research/reports/2014/05/time-to-privatize-opic>.

<sup>11</sup> United Nations Conference on Trade and Development, *World Investment Report 2015*, June 24, 2015: Annex Table 1,

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<http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx>.

<sup>12</sup> OPIC 2014 Annual Report, pp. 4-5.

<sup>13</sup> World Bank, GDP per capita, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>, accessed September 3, 2015.

<sup>14</sup> OPIC 2014 annual report, p. 2.

<sup>15</sup> Congressional Budget Office, "Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015-2024, May 2014, <https://www.cbo.gov/sites/default/files/cbofiles/attachments/45383-FairValue.pdf>.

<sup>16</sup> OPIC 2014 Annual Financial Report, p. 23.

<sup>17</sup> See the historical budget table available in Excel format at <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/hist01z1.xls>.

<sup>18</sup> OPIC 2014 Annual Report, p. 29.

<sup>19</sup> For more on how government agencies are hampered by their lack of profit, loss, and a coherent price system, see Ludwig von Mises, *Bureaucracy*, (New Haven: Yale University Press, 1944).

<sup>20</sup> OPIC 2014 Annual Report, p. 4.

<sup>21</sup> Why Are Overseas Development Advocates Pushing Us Down the Greenhouse Gangplank?" February 21, 2014, <http://www.greenpeace.org/usa/why-are-overseas-development-advocates-pushing-us-down-the-greenhouse-gangplank/>. Punctuation corrected from original.

<sup>22</sup> OPIC 2014 Annual Report, p. 34.

<sup>23</sup> Ibid, p. 35.

<sup>24</sup> Transparency International, <https://www.transparency.org/country/#VNM>, accessed September 14, 2015.

<sup>25</sup> OPIC 2014 Annual Report, p. 35.

<sup>26</sup> Friends of the Earth, "Landmark Global Warming Lawsuit Settled," news release, February 6, 2009, [http://action.foe.org/t/6545/pressRelease.jsp?press\\_release\\_KEY=486](http://action.foe.org/t/6545/pressRelease.jsp?press_release_KEY=486).

<sup>27</sup> OPIC, 2009 Annual Report, 11, [https://www.opic.gov/sites/default/files/docs/annualreport\\_2009.pdf](https://www.opic.gov/sites/default/files/docs/annualreport_2009.pdf).

<sup>28</sup> <http://www.forbes.com/profile/richard-branson/>. Forbes' estimate is as of September 2, 2015.