How Does OPIC Balance Risks, Additionality, and Development?
Proposals for Greater Transparency and Stoplight Filters

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Abstract

As the U.S. government’s development finance institution, the Overseas Private Investment Corporation (OPIC) provides investors with financing, political risk insurance, and support for private equity investment funds when commercial funding cannot be obtained elsewhere. Its mandate is to mobilize private capital to help address critical development challenges and to advance U.S. foreign policy and national security priorities. However, balancing risks, financial needs, and development benefits is riven with numerous tensions, statutory restrictions, and tradeoffs. Using data from the OPIC Scraped Portfolio, this paper summarizes key points of how OPIC is currently managing these various tradeoffs. We conclude with several preliminary recommendations – including a proposed new stoplight tracking system for development and additionality – that may help OPIC balance its often-competing development, foreign policy, and financial demands.
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I. Introduction

The Overseas Private Investment Corporation (OPIC) is the development finance institution of the United States government. Its mandate is to “mobilize private capital to help address critical development challenges” and to “advance U.S. foreign policy and national security priorities.” OPIC pursues this mandate by “providing investors with financing, political risk insurance, and support for private equity investment funds, when commercial funding cannot be obtained elsewhere.”¹ The agency operates on a self-sustaining basis and has provided net transfers to the US Treasury for nearly 40 consecutive years. Since its inception, it has helped to mobilize more than $200 billion of US investment through over 4,000 development-related projects.

OPIC’s mandate and toolkit place the agency in a unique position to play a meaningful role in building markets abroad and supporting American policy objectives. However, these tasks are not easy: OPIC is supposed to go where private capital is largely absent, where U.S. investment can be beneficial for both the U.S. government and the target market, and do so in a way that is financially sustainable and does not require American taxpayer resources.

This mandate is inherently riven with numerous tensions, tradeoffs, and statutory restrictions. Investing in the poorest countries may mean higher risk and lower profitability. Supporting U.S. foreign policy objectives may come at a cost to development impact. Investing in certain target sectors, like agriculture or renewable energy, may push OPIC into a different risk profile and into certain markets that may detract from its core development mission. OPIC also is a demand-driven organization with a number of statutory constraints, such as its inability to support non-US investors (e.g., local enterprises) and its lack of equity investment authority. These constraints further contribute to, or even exacerbate, these policy tensions and tradeoffs.

OPIC should be judged in part on how management, with approval of its Board of Directors, balances these various tradeoffs. So how well does OPIC’s actual portfolio balance the risks, financial needs, and development benefits? In a recent Center for Global Development paper, we provide detailed analysis of OPIC’s commitments over the 2000-2014 period.² This includes portfolio-level descriptive statistics on developing countries’ risk profile and financial needs, as well as rough indications of projected development impact.

In this paper, we build upon our recent analysis and outline a number of preliminary recommendations that may help OPIC balance its often-competing development, foreign policy, and financial demands. In this brief paper, section II summarizes the key takeaways from our earlier analysis, section III outlines a number of specific policy recommendations.

¹ www.opic.gov
recommendations for consideration that could improve clarity of OPIC’s decision-making tradeoffs and accountability, while section IV concludes.

II. Portfolio Analysis – Summary Takeaways

In a recent CGD paper, we provide detailed analysis of OPIC’s portfolio over the 2000-2014 period. This includes descriptive statistics on OPIC commitment trends, regional- and sector-level distribution, country income level allocations, client breakdowns, and projected development impact trends. We also analyze OPIC commitments using proxies for: commercial, political, and environmental risks; financial need; and OPIC ‘additionality’ and financial leverage. Methodological details on the OPIC Scraped Portfolio database can be found in Leo and Kalow (2016). We summarize the key takeaways from this portfolio analysis below.

Competing Policy Objectives

Key Takeaway #1 – OPIC often faces competing tradeoffs when balancing financial risks, development needs and impact, statutory restrictions, and foreign policy priorities.

OPIC management (and its Board) face several clear project selection tradeoffs related to balancing various risks, countries’ financial needs, potential development effects, statutory restrictions, and/or foreign policy benefits. Since OPIC is demand-driven, management cannot select an ideal portfolio and allocate capital accordingly. Instead OPIC must respond to project requests and its statutory restrictions (e.g., US nexus requirement and lack of equity authority), with each decision affecting the overall portfolio’s exposure, foreign policy utility, and developmental impact. Few projects are clear winners in meeting all three objectives (see figure 1 for indicative examples). Although reporting has improved since 2009, even greater transparency would enable a better perspective on how well competing objectives may (or may not) be matched by the agency’s activities.

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3 See Leo and Moss (2016a).
Figure 1 – Policy Objective Tensions

### Shifting Sectoral Concentration

**Key Takeaway #2 – OPIC is primarily focused on addressing infrastructure and access to finance needs, which align closely with business constraints and citizens’ demands.**

OPIC has become primarily focused on supporting infrastructure and financial services projects. These two sectors top the list of business constraints and citizen demands in the overwhelming majority of developing countries.\(^4\) Since 2000, infrastructure and financial services have accounted for two-thirds of OPIC commitments. Moreover, their combined share reached 85 percent of new OPIC commitments in 2014, the most recent year in our database. The most notable shift occurred in the mid-2000s when OPIC began prioritizing support for on-lending facilities focused on small- and medium-sized enterprises (SMEs) and microfinance institutions. The largest infrastructure sub-sector by number of projects has been electricity, followed by intermodal transport and water.

At the same time, OPIC has moved away from supporting enclave projects in the extractive sector, including oil, gas, and mining. Between 2000 and 2004, extractive industries accounted for roughly 30 percent of total OPIC commitments. However, the extractive sector share has fallen to less than 1 percent over the last five years. In fact, OPIC has committed only $73 million for small-scale projects in a handful of countries during this period.

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**Figure 2 – Financial Services, Infrastructure, and Extractive Sector Commitments**

Source: OPIC and authors' calculations

**Transparency**

*Key Takeaway #3 – Transparency has improved dramatically over time, but still remains lacking in several important areas.*

OPIC has dramatically improved project-level reporting over the last several years. In 2009, OPIC began to publicly release descriptions of prospective projects prior to formal Board consideration. These summaries include information on a range of issues, including: proposed OPIC commitment amounts; total project size; US and foreign sponsors; loan terms; environmental, labor and social risks; and expected development benefits. Before 2009, the only publicly available information was provided through annual reports and press releases.

However, important reporting gaps remain that limit external accountability. First and foremost, while each prospective project is scored for its expected development impact, this information is not disclosed publicly. In addition, OPIC does not release project-level information on actual development benefits over time. Second, the agency does not release details about US sponsors, such as firm size and number of employees. Both of these gaps limit accountability and have exposed OPIC to criticisms from outside groups.

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5 Figures exclude support for privately managed investment funds.
**Corporate Welfare**

**Key Takeaway #4 – OPIC is not a boon to large U.S. corporations, but ‘additionality’ could be more clearly articulated.**

OPIC has a diversified client base, including within its corporate project sponsors. Large US corporations (e.g., Fortune 500 companies) accounted for less than one-third of OPIC commitments between 2000 and 2014. Over the last five years, Citibank and Wells Fargo have been the largest US sponsors by commitment size. However, nearly all of their related projects support local banks’ lending facilities for microfinance institutions and SMEs. OPIC and the U.S. government have taken concerted steps over time to promote these types of lending activities in developing countries, and to encourage a greater role for US financial institutions. Consistent with this, Citibank and Wells Fargo have partnered with local financial institutions, such as First City Monument Bank in Nigeria, to support targeted lending to these traditionally under-served client segments. In turn, OPIC typically provides a loan guarantee instrument for a limited period of time for demonstration effect purposes.

**Figure 3 – OPIC Commitment Share, Fortune 500 Sponsors**

![Graph showing OPIC commitment share by year for Citibank and Wells Fargo, Other Fortune 500 Sponsors, and Other.]

Source: OPIC and authors’ calculations

Nonetheless, OPIC could do a better job of articulating where its involvement is crowding in private capital and thus truly additional. The agency currently requires that prospective clients have explored private alternatives before formally considering a project proposal. More broadly, however, OPIC does not report on whether its financial support catalyzed other financiers’ involvement through early stage support. The agency typically does not disclose whether other public or private financiers are involved in a project, or the specific terms of that involvement. Moreover, OPIC’s publicly available project descriptions
rarely note whether the project involves a new or unproven technology or business model. Greater transparency would assist in determining OPIC’s catalytic effect (or not) and could create internal incentives to avoid projects beyond the agency’s core developmental mandate.

**Wealthy Country Bias**

*Key Takeaway #5 – OPIC’s portfolio has become overly skewed toward higher income countries.*

Given OPIC’s mandate as a development agency, its portfolio should exhibit a bias toward low- and lower-middle income countries. Instead, OECD members and higher-income countries comprise a larger share of the portfolio than might be expected. This is especially true when using more granular (and more widely-accepted) country income categories than those currently reported by OPIC.

Since 2000, nearly half of OPIC’s country-specific commitments have focused on upper-middle income and high-income countries, such as Brazil, Israel, Mexico, Russia, and Turkey. In 2014, these wealthier countries accounted for over 70 percent of new OPIC commitments. By contrast, the share targeting the poorest countries has been on a downward trend for over a decade. In 2014, low-income countries accounted for only 1 percent of OPIC’s commitments.

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6 This excludes multi-country projects, which totaled $6.3 billion between 2000 and 2014. The share for specific income category groupings is based upon the adjusted country-specific total ($33.9 billion).

7 Several macro-level trends partially account for this decline. Most importantly, there are now far fewer low-income countries and many of the remainder are small and/or fragile states. However, there are several OPIC-specific factors as well, such as a significant increase in support for wealthy countries like Aruba, Chile, Israel, and Uruguay in recent years. OPIC’s statutory restrictions, such as the US nexus requirement and lack of equity investment authority, have contributed to this trend as well.
Figure 4 – Annual OPIC Commitments by Country Income Category, 2000-2014

Renewable Energy Priorities

Key Takeaway #6 - The wealthy country bias appears to be worsening as pressures to increase renewable energy investments have created exposure to high-income markets.

The Obama Administration increasingly appears to be using OPIC as a clean energy fund for upper-middle and high-income markets, rather than as a development agency targeting poorer countries. Between 2010 and 2014, OPIC provided over $1.3 billion in support for renewable power projects in high-income countries, such as Aruba, Chile, Israel, and Uruguay. The agency also provided nearly $1.8 billion for upper-middle income countries like Bulgaria, Mexico, Thailand, and Turkey. By contrast, OPIC provided only $758 million for all low-income country projects. Put differently, OPIC support for renewable energy projects in wealthier countries was over 4 times greater than all of its support for the poorest countries.
Continued OPIC support for renewable energy projects can help to improve household electricity access and support broad-based economic growth. This is particularly the case for utility-grade power generation, and mini-grid and off-grid projects for rural households. In the past five years, OPIC has supported renewable projects in low- and lower-middle income countries like Kenya, India, and Tanzania. Therefore, the emerging policy question is not whether OPIC should be engaged in renewable power projects. Instead, it is whether the agency should use its scarce capital and finite staff resources to support such projects in wealthier countries, especially those with universal or near universal access rates and relatively deep credit markets, or in the poorest countries where energy access rates are lowest.8

III. Policy Recommendations

OPIC is a valuable agency serving an important mission for global development and U.S. foreign policy that will become increasingly useful in a changing global context. Nevertheless, OPIC may benefit from a modernization of its rules and much greater transparency about its activities and impact. Based upon our detailed portfolio analysis summarized above, we suggest several policy changes for consideration.

8 At the time of OPIC Board approval, electricity access rates in the five high-income countries were: (1) Aruba (90.9 percent); (2) Chile (99.6 percent); (3) Israel (100 percent); (4) St Kitts and Nevis (90.9 percent); and (5) Uruguay (99.5 percent). Source: World Bank World Development Indicators.
(1) **Improved Transparency and Public Reporting**

OPIC should provide more transparent and accessible information on its commitments, including backdating already approved project-level data. This simple step would go a long way for outsiders to evaluate how well OPIC is balancing its tradeoffs, pursuing its mandate, and mitigating the various pressures on its portfolio. This could be accomplished by expanding the current online project database to include: (a) country income category, (b) sector-level details, (c) commercial, political, and environmental risk considerations, (d) details about US sponsors including firm size and number of employees; and (e) much greater detail on projected and actual developmental impact. The latter would include disclosing the agency’s development matrix scores for each project prior to Board consideration and disaggregated project-level reporting on actual results over time.

(2) **Policy Tension Guidance**

The OPIC Board of Directors could consider guidelines to mitigate competing policy pressures and to help clarify how well such pressures are being balanced. While there are many potential approaches, we outline a simple framework that could be incorporated into Board processes and decisions, as well as ongoing OPIC reporting:

- **Fewer (or Zero) Wealthy Country Projects**: Statutory prohibition or limits on investments in high-income and OECD countries.
- **More Poor Country Projects**: Recommended portfolio allocation targets for low- and lower-middle income markets.
- **High Development Impact Projects**: Recommended portfolio allocation targets for high-impact development projects.
- **Greater ‘Additionality’ Requirements**: Specific requirements for demonstrating capital need and thus ‘additionality’ benefits.

To accomplish these objectives in a low-cost manner, OPIC could incorporate a specific set of reporting filters for both selectivity and ‘additionality’ factors. By illustration, a stoplight system could be deployed (see figures 6 and 7 below). OPIC then could provide portfolio-level reporting based on each category and the overall allocation among the three distinct color codes on an ongoing basis.

- **Green Light Projects**: Given priority and are fast-tracked.
- **Yellow Light Projects**: Subject to supplementary scrutiny, require a higher bar of evidence, and are given additional consideration by the Board.
- **Red Light Projects**: Approved only in the rarest of exceptions.
IV. Conclusion

These simple policy recommendations would enable OPIC management, its Board, Congress, other federal agencies, investors, and the general public to more clearly assess whether the agency is engaging in activities that are fully consistent with its core development mandate. Having clearer answers to these questions would provide useful markers for guiding OPIC management, for holding the agency accountable, and for answering questions (and countering often-held misperceptions) about the agency. These types of answers are crucial to building long term sustainable support for its important mission. In coming decades, the US government will increasingly rely on private capital to fight poverty, promote markets, and support US policy objectives. OPIC, or a similar successor agency deploying similar tools, will be the principal means for doing so. The recommendations in this paper will help keep it on track and relevant.