



# Rethinking US Development Policy

## OPIC Unleashed: Strengthening US Tools to Promote Private-Sector Development Overseas

Benjamin Leo, Todd Moss, and Beth Schwanke

August 2013

### Summary

The US government has a large number of existing tools, policy options, and institutions to encourage entrepreneurship and commercial activity abroad. The Overseas Private Investment Corporation (OPIC), a government agency created in 1971 to mobilize private capital in developing countries, is the core institution. However, these tools have not been deployed in an efficient or strategic manner. This underperformance is largely because OPIC is severely constrained by outdated rules and because many needed tools are spread across other federal agencies. The lack of authorization of necessary investment tools used by competing overseas peer institutions, fragmentation of effort, and lack of cohesion across multiple agencies means that the sum of these parts is far less than optimal for both American and developing-country interests. These inefficiencies indicate that the United States is (1) losing out to other countries on potential commercial opportunities in the next wave of emerging markets and (2) neglecting key levers to support prosperity and stability abroad.

A strengthened OPIC—more efficiently deploying existing tools at no additional budget cost—would (1) increase US commercial access in emerging economies, (2) reflect economic, social, and political priorities in developing countries, (3) promote flagship US initiatives during austere budget conditions, and (4) support stability in fragile or frontline states.



## Background

The US government has a large number of existing tools, policy options, and institutions to encourage entrepreneurship and commercial activity abroad. The Overseas Private Investment Corporation (OPIC), a government agency created in 1971 to mobilize private capital in developing countries, is the core institution. However, these tools—technical assistance, credit lines, seed capital, and other mechanisms—have not been deployed in an efficient or strategic manner. This underperformance is largely because OPIC is severely constrained by outdated rules and because many needed tools are spread across other federal agencies. The lack of authorization of necessary investment tools used by competing overseas peer institutions, fragmentation of effort, and lack of cohesion across multiple agencies means that the sum of these parts is far less than optimal for both American and developing country interests. These inefficiencies indicate that the United States is (1) losing out to other countries on potential commercial opportunities in the next wave of emerging markets and (2) neglecting key levers to support prosperity and stability abroad.

A strengthened OPIC—more efficiently deploying existing tools at *no additional budget cost*—would have four benefits:

- (1) **Increase US Commercial Access in Emerging Economies while Meeting Demand for Non-Aid Engagement.** Growing middle-income markets (e.g., Nigeria, Thailand, and Turkey) neither need nor desire major non-military US aid. Moreover, domestic resource mobilization in many low-income countries has increased dramatically over the last decade, thereby making aid less and less relevant. In these countries, promoting prosperity and stability is in large part about expanding markets and economic opportunities for the rising middle and entrepreneurial classes. US government support for US investors in these markets is often necessary to catalyze this investment. This support is best achieved by using public-sector tools to crowd-in private capital such as risk guarantees, seed debt capital, and facilitating new private equity funds in markets where US investors hesitate to enter and need technical assistance or political risk coverage.
- (2) **Reflect Economic, Social, and Political Priorities in Developing Countries.** Household surveys across developing countries suggest that individuals' most pressing concerns and priorities relate to employment and income levels. This is particularly true in sub-Saharan Africa, North Africa, and the Middle East. The youth bulges underway in these regions—which represent both opportunities and significant challenges—have forced governments to make employment creation a top political priority.

- (3) **Promote Flagship US Initiatives during Austere Budget Conditions: Food Security, Clean Energy, and Electricity.** The White House has committed to promote food security (e.g., Feed the Future) and the development of clean energy for developing countries, as well as the new Power Africa initiative. Budget conditions make major public-sector outlays unlikely, adding further urgency to the need to leverage private investment. However, existing stand-alone facilities are not packaged in a manner to maximize and streamline support for these initiatives. Currently, many are also under increased congressional pressure, which is making them risk-averse and even less creative in supporting wider US policy goals.
- (4) **Support Stability in Fragile or Frontline States.** In countries facing complex governance or security challenges (e.g., Afghanistan, Burma, Pakistan, South Sudan, Somalia, Yemen, and Zimbabwe), the United States and other donors typically concentrate activities on delivering basic services and humanitarian relief. Projects to promote investment and encourage entrepreneurial activity are a necessary component for rebuilding these traumatized societies by creating jobs, economic opportunities, and tax revenues. Indeed, private-sector growth is the only long-term sustainable route for such countries to make the transition from dependency and poverty to self-sufficiency and middle-income status.

Strengthening OPIC directly supports the 2010 Presidential Policy Directive on Global Development's three pillars by effectively and efficiently linking the USG's private-sector economic growth and development tools across existing authorities:

- “A policy focused on sustainable development outcomes that places a premium on broad-based economic growth, democratic governance, game-changing innovations, and sustainable systems for meeting basic human needs;
- “A new operational model that positions the United States to be a more effective partner and to leverage our leadership; and
- “A modern architecture that elevates development and harnesses development capabilities spread across government in support of common objectives.”<sup>1</sup>

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<sup>1</sup> Presidential Public Policy Directive on Global Development (2010).

## **Proposal for OPIC Plus: Five Steps to Give OPIC the Tools It Needs to be a Self-Sustaining, Full-Service Development Finance Institution**

The United States should strengthen OPIC to both meet changing development finance dynamics and meet increasing demand from US businesses and developing-country partners. Providing OPIC with a broader range of policy tools and mandates would allow it to intensify its support for (1) the USG's efforts to reduce poverty in developing countries through private-sector growth, increasing wealth and stability; and (2) US private-sector expansion in emerging markets.

An empowered and expanded OPIC would provide the United States and American business with a more level playing field by enabling a toolkit to compete on par with overseas peer institutions. See Appendix 1 for a comparison of OPIC as currently authorized, OPIC Plus as structured per this proposal, and its main peer development finance institutions.

### **1. Strengthen OPIC by consolidating existing policy tools currently spread across multiple agencies.**

OPIC encourages US firms to invest in developing countries by providing political risk insurance, guarantees, debt capital for projects, and seeding new targeted private equity funds. Unlike leading peer institutions, OPIC does not provide technical assistance to help address barriers to direct investments and commercial sustainability. Instead, it currently relies on USAID and occasionally TDA or MCC to provide this function, thereby creating complications related to budgetary control, bureaucratic priorities, and differences in organizational cultures.<sup>2</sup> Providing OPIC with consolidated technical assistance authorities and capabilities from existing US programs would dramatically improve efficiency and effectiveness.

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<sup>2</sup> For discussion of difficulties resulting from OPIC's lack of technical assistance, and in particular, its reliance on USAID capabilities, see Dan Runde, *Sharing Risk in a World of Dangers and Opportunities* (Washington: Center for Strategic and International Studies, 2011), 7, 15. USAID's "budget, planning, and procurement systems for TA are not designed to work in tandem with development finance instruments, especially those used by other agencies such as OPIC. This problem is exemplified by instances when OPIC identifies projects that need TA and then requests that USAID pay for this TA out of USAID's budget, but the budget is often preassigned.... Often, the process of identifying funds, designing a TA project, and contracting for that project can take many months or a year or more."

Tools from other agencies brought into OPIC Plus should include:

- *US Trade and Development Agency (USTDA)* for feasibility studies and other technical assistance, such as project-planning services; as well as pilot projects and a limited grants window for overseas project sponsors who select US SMEs to conduct TDA-funded projects to assist in investment decisions. USTDA's small budget has required that it partner with OPIC and others to pursue its own projects. Bringing USTDA—and its much-needed technical assistance capabilities—under OPIC would eliminate the OMB accounting disputes that can hamper effective OPIC and USTDA cooperation,<sup>3</sup> serving to make both more effective.
- *USAID's private-sector units* that deal with business climate and other business promotion-related issues. USAID's private-sector technical assistance capabilities should also be consolidated into OPIC.
- *USAID's Development Credit Authority (DCA)*, which provides partial risk guarantees for financial institutions and bond offerings to crowd-in developing-country capital and provide a market demonstration effect for future intermediation activities. DCA is able to participate in first-loss funding, a capability that should be housed and retained within OPIC.
- *Enterprise Funds*, which are public-private investment funds targeted to a country (Egypt, Pakistan) or region (southern Africa) and intended to support market growth and entrepreneurship. These funds, which are typically administered via USAID, are better matched to OPIC's business model.
- Select international programs of the Small Business Authority (SBA), State (S/EEB), Treasury Office of Technical Assistance (T/OTA), and potentially others.

By combining these authorities and programs, an empowered OPIC would be in a position to provide a full range of financial and technical products to build an initiative-specific or country-specific private-sector strategy in support of US policy and interagency efforts.<sup>4</sup>

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<sup>3</sup> See Dan Runde, *Sharing Risk*, 10–11.

<sup>4</sup> The US Export-Import Bank would remain outside of the proposed OPIC Strong given its domestic-focused mandate on promoting US exports and job creation. The Millennium Challenge Corporation (MCC) would also be excluded given its broader focus outside of private sector–

## **2. Provide OPIC equity authority.**

Unlike G-7 and multilateral peer institutions, OPIC can currently only provide debt financing and risk insurance. It cannot make minority-share equity investments. Not allowing OPIC any ability to make equity investments has the perverse effect of excluding the agency from participating in many projects (including consortia of other peer organizations) and severely limits its flexibility to structure deals in the most efficient and strategic manner. It also reduces the potential earnings as equity accounts for roughly half of the IFC's and the Dutch FMO's total revenues in 2012.<sup>5</sup> Allowing even a modest 10–20 percent of OPIC's portfolio to be invested in equity would greatly increase flexibility and OPIC's ability to fulfill its mandate.

## **3. Permit OPIC to invest in itself.**

OPIC currently has only 220 employees. By comparison, the Netherlands' FMO has over 300 employees despite having an economy 20 times smaller than the United States.<sup>6</sup> Germany's DEG has 480 staff, despite an economy nearly five times smaller than the United States. OPIC's small staff is highly productive and efficient when compared to other peer institutions. Each DEG employee accounts for roughly \$15 million in total portfolio commitments and \$340,000 in annual profits, compared to \$75 million in total portfolio commitments and \$1.2 million in profits for OPIC.

OPIC has returned a profit to the US Treasury for 35 consecutive years (over \$272 million in 2012 alone).<sup>7</sup> A modest percentage of those profits should be retained and reinvested to support staff expansion (and therefore an enlarged portfolio), which will further increase revenues and support US deficit reduction in the future.

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based development issues (health, education, etc.). However, additional consideration could be given to incorporating various MCC components and borrowing aspects of its compact model.

OPIC should remain an independent development agency and should not be consolidated into the Commerce Department under any potential reorganization.

<sup>5</sup> See appendix I for details.

<sup>6</sup> According to the IMF, the Netherlands' GDP was roughly \$773 billion in 2012 compared to the United States' GDP of \$15.7 trillion.

<sup>7</sup> OPIC FY 2012 Annual Report.

**4. Authorize a modest grant window, allowing a grant-loan financing spectrum.**

Like other development finance institutions, OPIC should have tiered concessionality windows for different categories of countries (e.g., based on income level and creditworthiness). Offering a fuller range of products also would permit limited cross-subsidization. For instance, the cost of technical assistance grants in the poorest countries would be offset by commercial-rate project financing. Although OPIC should not become a grant-making organization, a modest grant window could bring value added and could be financed through retained profits or by transferring existing USAID facilities and other agencies.

**5. Authorize OPIC for at least one five-year period, with eventual permanent authorization.**

OPIC has been reauthorized on at best an annual basis since 2007—impeding its ability to execute new business when not authorized, and creating significant uncertainty with private investors even when authorized.<sup>8</sup> OPIC should be authorized for an initial five-year period, with the goal of a permanent authorization well before the initial five-year period ends.

## **Governance**

OPIC should remain an independent government agency, led by a management team appointed by the White House, and overseen by a board that includes both government and private-sector representatives. However, new consideration should be given to an enhanced governance structure that would allow for an equal number of Democrat and Republican appointees.

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<sup>8</sup> CSIS estimates that when OPIC lost its authorization for six months in 2008, a \$2 billion backlog in potential deals accumulated. See Dan Runde, *Sharing Risk*.



## Notional Budget

Even with no additional savings, increased core OPIC staff, or new business lines, an empowered OPIC would be self-financing and require *no annual budget appropriation* based upon indicative estimates and actual FY2012 outlays.

Agency/Unit	USD Millions	Note
OPIC	-272	
TDA	50	
DCA (USAID)	48.3	Including transfer authority
PSD (USAID)	16.1	Est. 10% of EGAT budget; now 3E.
SBA/OIT	8.9	
S/EEB	30.6	
T/OTA	25.4	
Sub-Total	-92.7	
OPIC Staff		
Expansion	25	
TOTAL	-67.7	

## Proposal Benefits

An unleashed OPIC would:

- Allow the United States and its private sector to better compete in emerging markets;
- More directly respond to economic, social, and political priorities in developing countries;
- Provide a platform for coherence of US policy tools in support of the private sector;
- Reduce operating expenses; and
- Minimize overlapping authorities and conflicting mandates of multiple agencies.

## Likely Objections

- Existing agencies and programs will resist ceding authority or budget to OPIC;
- Some may misinterpret an empowered OPIC as expanding government or creating new federal agencies;
- Cost is likely to be raised, even if the proposed structure is designed, at worst, to be budget neutral; and
- New legislation would be required.

## Conclusion

OPIC as a full-fledged development finance institution is necessary for pushing forward the impact of the 2010 Presidential Policy Directive on Global Development and would be one of the most effective tools in the US arsenal to reduce poverty in developing countries. Further, without a true development finance institution, the United States and its private sector will continue to lose out on supporting and directly benefiting from the growth in emerging market economies. The win-win approach of an unleashed OPIC enables countries to meet their own needs and challenges without relying upon foreign assistance in the future and creates commercial opportunities for American firms by building markets abroad.

## Appendix 1: Development Finance Institution Comparison, 2012

Institution	Commitments (USD bln)	Total Portfolio (USD bln)	Country Coverage	Administrative Expenses		Portfolio Value per Employee (USD mln)	Profits (USD mln)	Profits Per Employee (USD mln)	Equity Authority	Technical Assistance Capabilities	Grants Window	First-Loss Funding	Equity (% of Revenues)
				Full-time Employees	Operating Budget (USD bln)								
OPIC	\$3.0	\$16.4	103	220	\$0.055	\$74.55	\$272	\$1.24	No	No	No	No	N/A
OPIC Plus									Yes	Yes	Yes	Yes	
FMO (Netherlands)	\$1.7	\$3.8	-	306	\$0.069	\$12.52	\$214	\$0.70	Yes	Yes	Yes	Yes	40%
Proparco (France)	\$0.9	\$7.8	60	137	\$0.042	\$56.67	\$49	\$0.35	Yes	Yes	Yes		6%
CDC Group (UK)	\$0.6	\$3.4	-	65	\$0.019	\$52.67	\$340	\$5.23	Yes	Yes, via DFID	No	Yes, for some impact funds	
DEG (GER)	\$1.6	\$7.4	-	480	\$0.135	\$15.34	\$163	\$0.34	Yes	Yes	No, some guarantees		31%
IFC	\$15.5	\$45.8	103	3763	\$1.21	\$12.18	\$1,658	\$0.44	Yes	Yes	Yes	Yes	58%