

OPIC



Overseas Private Investment Corporation

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Introduction

The Overseas Private Investment Corporation (OPIC) is the U.S. Federal Government's Development Finance Institution. For over four decades we have mobilized private capital to help solve critical development challenges and, in doing so, have been a powerful, tangible tool for U.S. foreign policy. OPIC works with the U.S. private sector, helping U.S. businesses gain footholds in the large and rapidly growing emerging markets and thereby generating revenues, jobs and growth opportunities both at home and abroad. We achieve our mission by providing investors with financing, risk insurance, support for private equity funds, and all without loss of any U.S. jobs.

The Agency currently has a \$21.5 billion portfolio across 100 developing countries and just marked the 39th consecutive year of achieving our mission at no net cost to taxpayers. OPIC has generated roughly \$2.3 billion to reduce the U.S. budget deficit over just the past six years, continuing to fulfill its self-sustaining mandate.

As of 2008, trends affecting OPIC's operations pointed to a mismatch. Major opportunities for greater development impact via the private sector were becoming more evident, and demand from clients and co-investors was coming from ever more quarters, from small "impact" investors to established companies seeking to scale further. However, OPIC's resources and toolkit of products and services were limited relative to client demand, and relative to peer development institutions in other European and Asian nations. Hence, I set out the following as our principal goals:

1. to increase the Agency's impact through prudent portfolio growth that would be diversified by region and sector, and would sustain the Agency's track record of self-sufficiency and do so by developing new financial products and refining existing ones;
2. to strengthen the Agency through building a fully modern institutional architecture, such as new enterprise risk management systems, all new management information systems, automated application processes, human resource, security and knowledge management systems and enhanced oversight and reporting;
3. to increase its development impact and environmental benefit by emphasizing investment that addressed such critical issues as infrastructure, job creation, energy security, and natural resource management;
4. to foster productivity and efficiency through new private sector partnerships and improvements to the OPIC customer experience and through development, skill building and engagement of the OPIC workforce;
5. to achieve greater efficiency and impact through partnerships with sister U.S. Government agencies that have the same foreign policy and development mission as OPIC, yet complementary instruments and resources: the State Department, USAID, USTDA and MCC, among others;
6. to invest in the long-term durability and responsiveness of the Agency via stronger external engagement and advocacy with stakeholders in Congress, the private sector and nongovernmental organizations.

Record of Progress

OPIC's Track Record Since 2008

Throughout a volatile global economy, which witnessed not only a financial and economic crash, sustained conflicts across a wide swath of the Middle East and North Africa, and a collapse of commodities prices, we were able to grow our investment portfolio by roughly 160 percent, to \$21.5 billion, since 2009, powerfully expanding its development impact.

Over this period, performance of OPIC's portfolio remained solid, with non-performing loans at manageable levels and write-offs net of recoveries below 1 percent.

The Agency fulfilled its mission of catalyzing private sector investment to make the most efficient use of taxpayer dollars: for every \$1 dollar that OPIC has committed to a project, we have on average mobilized \$2.60 from other sources.

While OPIC's portfolio has grown, it has also evolved since 2008, including where our projects are located, what sectors we are working in, and who are our partners. Geographically, the gradual reorientation reflects the Agency's progress in emphasizing investment where development impact can be the greatest and where private investors require some public sector finance or risk mitigation to be able to feasibly invest. Historically, the region representing the largest portion of our portfolio has been Latin America. In recent years, OPIC investment in Sub-Saharan Africa, home to many of the poorest nations in the world, has risen more than 250 percent. It now represents the largest portion (nearly one-third) of the Agency's committed portfolio. Last year, 40 percent of OPIC commitments were to projects in the low income countries. Similarly, in support of U.S. foreign policy goals, OPIC has increased its investment in conflict-affected and fragile countries by roughly 70 percent since 2008. Last year, for example, this included investments in nations such as Jordan, Egypt and Ukraine. This work in these nations is hard and requires a long-term view. Today's thriving, stable nations in emerging markets that are now allies and partners often were once fragile economies in which OPIC supported early stage, frontier market investments.

The changing composition of OPIC's portfolio by sectors also reflects progress toward achieving more development impact. In recent decades, a variety of changes—technological, economic, legal, financial, political, and market—have created viable development finance opportunities in sectors where none existed before. From power to telecommunication to microfinance to health care and education, companies can now use development finance to invest in commercially viable ways while also contributing to rapid development impact.

President Obama's signature Power Africa initiative galvanized inter-agency cooperation within the U.S. government to achieve aggressive long-term targets in addressing energy access in Africa. It also significantly boosted progress on addressing African countries' legal, regulatory and other challenges to foster a more business friendly environment. As a result, just over two years after the launch of Power Africa, OPIC surpassed its goal of providing more than \$1.5 billion in financing and insurance to power projects in Africa and is on track to meet its subsequent, larger pledge well ahead of schedule. These commitments included projects ranging from gas-fired power plants in Nigeria to wind and solar in Kenya and Senegal.

Solar energy prices, on average, have declined more than 63 percent since the year 2000, and especially sharply in the past five years. The cost of lithium-ion energy storage has fallen by up to 70 percent over the past two years, and looks set to continue falling. As a result, many U.S. clients saw attractive opportunities in renewable energy in emerging markets. We were able to respond to this client demand increasing the Agency's renewable energy investments in developing nations more than 10-fold, to \$8 billion during the Obama Administration. These investments cover a diverse mix of locations and technologies, from utility-scale solar in deserts to biofuel systems in farm country to wind power on island nations. In the sub-sector of off-grid renewable to address energy poverty in rural areas beyond the reach of the electric grid, OPIC was an early pioneer in developing financing instruments to launch new business models. These renewable energy investments were in addition to the traditional and on-going OPIC-supported energy projects which used resources such as natural gas.

In the microfinance sector, which provides access to financial services to low income entrepreneurs, OPIC's portfolio reached \$1 billion for the first time in 2016. In the information and communications technology (ICT) sector, which is crucial to enabling low-income countries to connect to the world economy and become increasingly self-reliant, OPIC's portfolio also topped \$1 billion for the first time ever.

To meet the needs of the market and its private sector clients, we have introduced nearly a dozen new finance and insurance products or services. These new services and products have created opportunities to collaborate with more business partners, especially small businesses and innovative start-ups.

For example, since 2008, OPIC has energetically engaged so-called "impact investors" — those who seek to make development impact along with profit as their objectives. The Agency launched pilots, and ultimately formalized, products and services such as the Portfolio for Impact, the Innovative Financial Intermediary Program, Working Capital Finance and the Aligned Capital Platform, all to increase collaboration with impact investors who had private sector projects with extraordinarily high development impact potential, but that might not otherwise meet the standard underwriting criteria of the Agency.

Over the past eight years, I have focused deeply on building and modernizing the Agency's institutional infrastructure, developing modern systems, policies, processes and reporting mechanisms and replacing many outdated ones in order to respond to both the needs of its clients and the goals of U.S. foreign policy alike. This included developing an enterprise risk management system, all new management information systems, as well as human resources, security and knowledge management systems. These investments have strengthened the Agency, making the Agency more capable and nimble while also increasing its analytical rigor, transparency and accountability. OPIC has engaged businesses and civil society to undertake a complete review of its Environmental & Social Policy Statement to ensure that it is responsive to the interests of long-term business success, economic and social development, a healthy environment and stable societies.

The Agency has also systematized its ability to distill experience from its historical portfolio performance and completed a wide-ranging review of ways in which to streamline deal processing procedures and steps to become more responsive to clients. To complement all of these efforts, a newly instituted Lessons Learned series of sector reviews was started and has proven very informative.

Vision for the Future

Forty plus years ago, the notion that the United States or other advanced nations' foreign policies should aim to help the developing nations become self-sufficient by creating private sector jobs was not at all central to policy makers. Less than a handful of development finance institutions existed. When OPIC was created, governments in developing nations owned and managed nearly all telecommunications companies, banks, power companies and, in some cases, even farms and hotels. The idea that the private sector might play a critical role stabilizing economies and making them more resilient through creating jobs and opportunities and in alleviating poverty was not a factor to conventional economic theorists at the time.

Today, private investment and sector growth are viewed as the leading edge of helping developing nations achieve economic self-sufficiency. Thanks to new business models and new technologies, commercial investors are now eyeing sectors in the developing world that were once predominantly, and in some cases exclusively, the domain of public sector budgets. Companies, not governments, now manage ports and roads. Companies, not governments, are the backbone of banking and finance in nation after nation. Rather than governments risking political capital on 5- or 10- or 20-year plan models, companies risk investment capital with investments horizons defined by financial and demographic models.

Innovative American companies, many of whom are OPIC clients, are having more development impact than anyone would have predicted. This is clear to see in banking and power but even in less obvious sectors such as:

- Agriculture: Partners currently supported by OPIC are sustaining livelihoods for nearly 1 million smallholder farmers;
- Healthcare: OPIC projects are supporting more than 7 million patient visits per year – in both small clinics and large hospitals;
- Housing: Projects OPIC currently supports have constructed affordable homes for over 60,000 homeowners and have provided more than 200,000 home mortgages, the majority of which are first-time homeowners;
- Education: Projects OPIC currently supports are educating over 120,000 students in primary and secondary schools, and over 25,000 students in higher education; and
- Water: Infrastructure projects OPIC currently supports are producing over 150 billion liters of water each year, the equivalent of 267 billion bottles.

The cumulative result of such successes is a sea change in development thinking. Some 40 or more institutions around the world now provide cross-border development finance. Indeed, development finance will be the single largest component of annual foreign assistance flows in the world by the end of this decade. DFIs represent roughly \$90 billion in annual commitments, and are growing at 10 percent. (And that figure does not include growth in China's development finance.) The OPIC model of development will soon be the world's largest by volume.

The logic of the political economy is straightforward. Aid levels are likely to be flat or declining in advanced economies. Development finance is a multi-purpose instrument that advances global development, domestic prosperity and foreign policy “soft power.” Given a choice between grant-based aid and development finance, the rising players in global development such as the BRICS nations (especially China) are choosing forms of foreign assistance that are leaner, more self-sustaining and oriented toward private investment, which has consequences for competitiveness.

Arguably, the United States has a major comparative advantage in using development finance. America has scores of companies that lead in creating and leveraging life-changing technologies for the developing world. It is committed to an open, rules-based, sustainable and inclusive economy. And it is committed to replacing entrenched poverty with self-sufficient economies. All this points toward a greater emphasis on the use of the private sector for development — OPIC’s mandate. Thus, OPIC will likely have a central and outsized role in the major development agendas of the next decades:

- taking advantage of the opportunities in energy security and managing resource scarcity;
- addressing the youth unemployment that is so tied to stability and national security;
- creating the infrastructure that will drive economic growth; and,
- harnessing new technology to advance development such as solving the last mile of connectivity.

U.S. companies will increasingly demand OPIC’s services. Emerging markets, which represent 80 percent or more of the world’s population, and are growing much faster than advanced economies, will only figure more prominently in their considerations. Billions of people in Africa, Asia and Latin America are hungry to catch up with the West. In particular, over the next decade, an estimated 1 billion emerging-market consumers will join the middle class. The number of African households with disposable income will double in the next 10 years. The consequences of how they use their purchasing power will be far-reaching.

People who have had their worlds open up through mobile phone access and the internet now want, even demand, broadband, reliable electricity and better schools and health care. Those populations represent viable markets for the goods and services of American companies. However, many of these opportunities are on the geographic or economic frontier of the market, precisely where OPIC’s assistance is needed as a source of capital and risk mitigation. This represents an opportunity both for U.S. companies to be first-to-market and for the United States to accomplish its development and foreign policy objectives.

Investors, markets, and governments will not come together spontaneously without some help. Development investors are constantly looking for comparatively low-cost, high-impact business models, especially in areas of basic needs such as water, health care and education. Institutional investors in advanced economies continue to look for investments, such as a large-scale infrastructure, that can provide stable returns over long time periods. Investors of all sizes and types need finance, risk mitigation and help interacting with local governments. Local governments need guidance in embarking on new partnerships and assurances that investors can be trusted to deliver services, set high standards, and take care with their local communities, laborers, and natural environment. This is where OPIC will continue to play a pivotal, mediating role in connecting and mobilizing the diverse players required to bring investments to fulfillment.

Actions Needed

OPIC is not constrained by the availability of attractive projects. It is constrained by its need for additional resources, flexibilities, tools and authorities.

Resources. OPIC has a proven model whose scale has not kept up with the market or with demand. With additional budgetary resources, OPIC would:

- Hire additional personnel to structure and evaluate potential projects and monitor active projects;
- Upgrade information technology to improve and streamline internal operations, deliver services, and enhance performance;
- Increase transparency by implementing new data collection systems and building interactive online tools to share the data with the public; and
- Enable OPIC to expand its outreach to US small business to help them become aware of USG resources available to them to tap into fast growing markets abroad.

With additional staff to originate and evaluate more projects, OPIC will generate additional receipts, covering not only its own costs, but costs of other agencies as well.

Tools and Authorities. Updating OPIC's statute would substantially augment the Agency's impact, without adding additional costs. The next Congress should consider among other measure to address exposure and retention issues, harmonizing eligibility criteria across OPIC's various authorities and provide support for limited equity investments. Unlike most other DFIs, OPIC is limited in its ability to make equity investments. However, OPIC can only participate in a growing number of private equity funds if it does so with the same rights and terms as other equity investors. As a Limited Partner (LP), OPIC would be investing alongside private and other official LPs in privately managed, limited life investment vehicles that have ownership interests in a diversified portfolio of assets. OPIC screens for compatibility and alignment with OPIC's development and policy mission. OPIC would not select the companies in which the fund invests, invest directly in any company, or involve itself in the daily operations of a company. An LP equity program would enable the Agency to use the incremental return of an equity program to diversify its total exposure—increasing stability of OPIC's portfolio and enabling, in the long run, greater flexibility at OPIC.

Lastly, OPIC needs long-term authorization, the next Congress should address this as well. The Agency is unable to commit new business when its authorization lapses, and this potential disruption has cast a shadow on business continuity at least since 2008, when Congress failed to renew authorization for a period of six months. This long shadow of uncertainty discourages potential clients and partners from making long-term investment decisions and undermines the Agency's ability to be an effective, trusted, credible partner.

Conclusion

We are an agency whose time has come. The needs in global development far exceed the resources of the United States and indeed all traditional donor nations. The opportunities for U.S. companies to tap into the large and rapidly growing emerging markets with new and innovative business models will only become more compelling. Solutions to the interrelated geopolitical, economic, demographic and environmental problems that pose threats to stability and prosperity will hinge, in part, on the ability to create jobs and hope for the massive, unemployed youth populations of the developing world. OPIC provides a tool for the U.S. government that is responsive to clients, disciplined by market viability, targeted on a project-by-project basis and firmly grounded in a successful track record and governance structure that emphasizes accountability, transparency and verifiable results all while returning money to the U.S. Treasury.