Number PB03-5 May 2003

International Economics Policy Briefs

Reforming OPIC for the 21st Century

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The mission of the Overseas Private Investment Corporation (OPIC)—created in 1969 through an amendment to the Foreign Assistance Act—is "to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies, thereby complementing the development assistance objectives of the United States." OPIC pursues this mission by insuring US investors against political risks that include expropriation, currency inconvertibility, and political violence; by financing US investors overseas through loans and loan guarantees; and by providing credits to private investment funds that make equity investments in businesses in underdeveloped countries and regions.

Over its 34-year history, OPIC has supported $145 billion worth of investments that have helped developing countries generate over $11 billion in host-government revenues and create over 680,000 host-country jobs. OPIC projects have also generated $65 billion in US exports and created more than 254,000 American jobs. During the past five years, OPIC's loan and insurance programs have encompassed an average of 45 projects per year with a value of $2.5 billion, in a total of approximately 70 countries.

With the advent of George W. Bush's administration, the new leadership at OPIC has refocused the Corporation on its original mission of facilitating economic development, with a determination to complement rather than compete with the private sector. This presents a timely opportunity for a thorough review of the rationale for OPIC's existence, and for a rigorous examination of recurrent criticisms that it is merely duplicating activities that can be better handled by the private sector. We conclude that OPIC has an indispensable role to play in overcoming market failures that limit the flow of foreign direct investment (FDI) to developing countries—a role that private actors cannot replicate on their own.

OPIC needs new and expanded statutory authority from Congress to be able to realize its full potential to contribute to the growth and welfare of developing countries and to the health of the US home economy.

OPIC needs new and expanded statutory authority from Congress, however, to be able to realize its full potential to contribute to the growth and welfare of developing countries and to the health of the US home economy. Under statutory constraints now in place, many of the projects that can have the largest catalytic effect on host country development are ineligible for OPIC coverage. In addition, OPIC's creation and application of a new developmental matrix will allow it to pay more attention to the broader social aspects of its projects (the "sustainable development" agenda), and the adoption of current best practices will help OPIC to provide greater transparency about workers' rights and environmental practices of the investors the Corporation supports.

The impact that OPIC can have in supporting the flow of FDI to developing countries, while ensuring that its operations strengthen the job base in the United States, can be greatly magnified by reforms—few in number but significant in consequence—outlined in this policy brief. To make this case, however, requires looking at how OPIC now functions and at how its practices and procedures might be modified and made more effective.

A Rigorous Public Policy Rationale for OPIC

When OPIC was founded in 1969 through an amendment to the Foreign Assistance Act, the flow of FDI to the developing world was relatively small, long-term lending to foreign investors in emerging markets was extremely rare, and insurance coverage against the variety of political risks encountered by international companies was virtually nonexistent. Today, then, why should the US government—and the US taxpayer—want to continue to support an agency such as OPIC in the midst of vigorous private-sector political risk insurers and financial institutions helping foreign investors to operate in emerging markets?

The answer depends upon whether there are economic and political benefits for the recipient countries and for the US home economy as well as for broad US foreign policy interests, that result from supporting FDI beyond those that accrue to the private parties involved—that is, *positive externalities* for both the developing world and for the United States. And the answer also depends upon identifying *market failures* that would limit or prevent these benefits from being generated if private-sector political risk insurers and financial institutions were left to function on their own.

There is abundant evidence that appropriately structured foreign investor operations can contribute to economic growth, social welfare, good governance, and environmentally sustainable development around the world. *OPIC must be allowed to provide political risk insurance coverage to those projects whose beneficial impact on the host economy is likely to be largest, rather than prohibited from doing so.* Although FDI is by no means a cure-all for the problems of poverty and underdevelopment, these positive results—when they occur—provide important commercial and political feedback to the United States and may reinforce foreign policy objectives by helping to stabilize or reconstruct crisis areas, such as Central America in the 1990s, or Af-

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ghanistan, the Balkans, and Pakistan in the current period. Support for outward investment can also expand US exports, improve the level of US wages and benefits, and generate other favorable spillovers for the US home economy.

Not all foreign investment projects, however, contribute to economic growth, social welfare, good governance, or environmentally sustainable development in the host country, or strengthen the US economic base at home. The justification for public support for FDI hinges therefore on separating out those projects that provide a positive contribution from those that do not, or on transforming the latter into the former.

But why is a publicly backed institution such as OPIC needed at all to support and guide the flow of FDI? Could not private political risk insurers and financial institutions provide the assistance investors need on their own?

OPIC plays a role that private political risk insurers and financial institutions cannot duplicate, by deterring host authorities from taking political actions that damage foreign investor operations. Private political risk insurers offer the promise of compensation after harmful acts take place. So does OPIC. But OPIC has a unique capability to prevent the host country from engaging in behavior that leads to a demand for compensation, because its insurance coverage and financial guarantees are backed by investment agreements with the countries where it operates and are reinforced by the clout of the US government. Therefore, OPIC can discourage adverse conduct from taking place in the first place or help resolve disputes before they result in a claim.

OPIC provides an umbrella of protection that helps make up for a market failure in the ability of host countries to make long-term commitments to honor contracts, after large amounts of foreign capital have been sunk and host authorities—or successor governments—find themselves under domestic pressure to change, tighten, or abrogate the initial investment agreement. The OPIC "presence" thus allows foreign investment projects to move forward that otherwise would never be launched. When investment disputes are not checked or averted, OPIC has successfully pursued recovery on more than 90 percent of the claims. As a result, OPIC has operated for more than three decades on a self-sustaining basis, accumulating about $4.2 billion in reserves.

But if OPIC can make a profit from its operations, should it not be privatized? The rationale for OPIC's existence is not contingent upon whether selling political risk insurance can yield a profit, but rather springs from its role in overcoming market failure in ways private-sector actors cannot. A study of potential privatization of OPIC commissioned from JP Morgan in 1996 concluded that the US government would actually have to offer OPIC's assets at a discount to induce any private corporation to take over its portfolio, because the private sector would simply not be able to replicate its deterrent function or reproduce its recovery rate. The study pointed out that even with a hypothetical privatization, the US government would still have to promise to back all outstanding contracts until their expiration precisely to maintain the umbrella of protection against host-country mistreatment that only an official US presence could supply.

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In supporting foreign investment over the years, OPIC has regularly devoted the largest proportion of its financial guarantees and insurance to large corporations. Should not this concentration on big, established investors be considered a kind of "corporate welfare"?

The answer to what kinds of corporations OPIC should support requires assessing what kinds of investors can best promote host-country development and generate the economic and political externalities that are in the public interest of the United States. Here the evidence points consistently toward larger firms, although, sometimes, smaller firms can make important contributions too. Although it is important to assess how small and medium-sized enterprises can best be integrated into OPIC's operations, there is no empirical justification for criticizing OPIC support for larger firms per se.

Complementing Rather Than Competing with the Private Sector

A rigorous justification for OPIC's support of FDI still leaves the question of how it can maximize cooperation and minimize competition with private-sector insurers. Is OPIC doing enough to avoid taking away business that private insurers would like to provide without competition from a publicly backed entity?

Here there is an inescapable trade-off between OPIC's developmental mission and its objective of offering as much business as possible to the private sector. The trade-off arises for investment projects "at the margin" when the investor insists that it cannot get what it needs at acceptable terms from private insurers and will not move forward without OPIC's participation. OPIC could emphasize its developmental role and support the project as the client requests, or it could emphasize its desire not to compete with the private sector and refuse to support the project.

In 2001, OPIC adopted a complementarity procedure designed to ensure that each and every new project submitted to OPIC is open to private insurer participation. OPIC's insurance officers provide prospective customers with contact information for private insurers as well as brokers and request that they attempt to place at least 50 percent of their coverage with the private market. If placement with private carriers is not successful, potential customers are required to provide an explanation as to why terms, conditions, rates, or tenor are unacceptable. Only then will OPIC consider providing coverage requested by the client. The ultimate assessment of how to insure a project resides with the client.

The challenge for OPIC is to revamp its screening and monitoring procedures to ensure a positive contribution along both these dimensions—augmenting host-country development and strengthening the economic health and welfare of the US economy—while rejecting or restructuring projects that do not.

Thus, for projects "at the margin"—projects that investors would not launch if they were to have to accept only private-sector insurance—OPIC has properly left open the possibility of letting its developmental mission prevail, by maintaining the option of providing the requested coverage rather than categorically refusing to do so.

In addition to coinsurance with the private market, reinsurance—in which OPIC offers part of its portfolio to private insurers or accepts part of the portfolio of private insurers—offers another mechanism for increased cooperation with the private sector and also provides other important benefits. Should OPIC begin to offer some of its projects for reinsurance by private companies?

The Office of Management and Budget has sometimes argued that because the US Department of the Treasury has a cheaper cost of capital, deeper pockets, and a greater ability to spread risk across all taxpayers than any other entity, the US government should reinsure itself and not pay fees to others. But this argument ignores the fact that reinsurance is simply a management tool that OPIC can use to enhance its developmental mission and support foreign policy objectives more effectively at crucial times.

If OPIC had the option of reinsuring part of its portfolio with the private market, it could structure its portfolio with more flexibility. For example, OPIC might find that its accumulation of exposures in Turkey would make it imprudent for it to take on more risk there, yet US interests would be strongly served by supporting new projects in that country. If OPIC had the ability to transfer exposure to private reinsurers that might be underrepresented in the Turkish market, it could support new projects that it otherwise could not.

Do these efforts to maximize cooperation and avoid taking away business from private-sector insurers pose hidden dangers to OPIC? The reinvigorated impetus to maximize cooperation and avoid taking business away from private insurers exacerbates OPIC's problems of adverse selection and lack of portfolio diversification. No insurance agency can long remain viable if it accepts only the sickest patients or the most vulnerable clients.

OPIC's initiative to turn over all proposals brought to its door to potential private-sector coverage is synonymous with adverse selection: Private insurers will take over all of the more favorable projects and will carve out risky areas for coverage from the less favorable projects. OPIC will be left with the least desirable investments and the more risky areas of coverage. In this process, OPIC is likely to limit its ability to balance its portfolio across sectors and geographical regions, as private insurers understandably leave less appealing projects to the public sector.

Adverse selection would be exacerbated if OPIC were to promise to pick up areas of coverage that private coinsurers dropped over the life of individual projects. The potential damage could be worse still if OPIC were to offer individual projects to be reinsured by the private market—or even perhaps be required to offer all projects for private reinsurance—opening the door to cherry-picking from the OPIC portfolio by private reinsurers.

OPIC's Impact on Home and Host Countries

OPIC's support for US foreign investment can simultaneously have a positive impact on host countries in the developing world and on the US home economy. But not all foreign investment projects can be complacently assumed to have this doubly beneficial effect. The challenge for OPIC is to revamp its screening and monitoring procedures to ensure a positive contribution along both these dimensions—augmenting host-country development and strengthening the economic health and welfare of the US economy—while rejecting or restructuring projects that do not.

Looking first at the impact of OPIC-supported projects on economies in the developing world, the evidence suggests that the projects OPIC chooses to support can have a much more potent effect on host-country development than conventional measurements indicate. OPIC measures its developmental impact on host countries by estimating taxes, local expenditures, local employment, and foreign exchange revenues from the projects it supports. Modern growth models suggest that if these inputs are all that OPIC-backed projects bring to the host economy, the outcome will remain far below potential.

What foreign investors potentially can bring to emerging markets is not simply capital and technology to put local labor to work but also "packages" of technology, quality control mechanisms, and management and marketing techniques that allow host-economy actors to undertake entirely new activities as well as carry out existing activities more efficiently. These packages may have economic spillovers and externalities for the host society that extend well beyond purely economic effects.

New estimates of the economic benefits from such foreign investment packages are 10 to 20 times larger than the measurement categories OPIC now employs would suggest. *These positive effects on development are most likely to be found in export-oriented manufacturing projects that are closely integrated into the parent corporation's sourcing network—precisely the kinds of projects that OPIC resolutely turns away from, under current internal guidelines and externally legislated restrictions that must be changed.*

The potential benefits of OPIC-supported projects also include social spillovers and externalities, in the form of changes in worker-management institutions, wage and benefit policies, on-the-job and outside training programs, and gender issues such as nondiscrimination in compensation and promotion, nonharassment policies, maternity leave, and access to day care. These social spillovers and externalities can include improvements in corporate governance and support for host-country policy reform.

But these economic and social benefits are not present—indeed are noticeably lacking—in many foreign investor operations. As part of an effort to ensure sustainable development from the projects it supports, OPIC must redirect and expand its monitoring protocols to focus on this broader array of effects, both positive and negative.

These potentially positive effects on emerging-market countries need not come at the expense of the strength and vitality of economic activity in the home country. *In the aggregate, the evidence consistently shows that there is a win-win relationship between support for outward investment and beneficial consequences for the US economy.* US firms that invest abroad simultaneously export more from the United States, pay higher wages and benefits at home, enjoy greater stability in the domestic market, and generate more significant spillovers and externalities for the firms, workers, and communities where they are located than do similar US firms that are not engaged in outward investment. Keeping firms at home—or denying them help to overcome market failures in moving abroad—would leave the US economy *worse off* than when they are able to take advantage of opportunities around the world.

> *The appropriate test is for OPIC to assess whether US workers, firms, and communities would be better or worse off overall if a proposed investment project went ahead. This common-sense standard—identified as a new "US net economic benefits" test—should be incorporated into OPIC's authorizing legislation.*

Once again, however, this complementarity between outward investment and expanded exports and better jobs does not necessarily happen in each and every case. OPIC needs to adopt a new measurement standard both to identify foreign investment projects that leave workers and communities better off if the projects come to fruition than could be expected if the outward investment did not take place and also to separate these out from foreign investment projects that leave workers and communities worse off.

This new measurement standard will have to be backed by changes in OPIC statutory instructions regarding what are termed "US effects." OPIC currently examines not what the US economy would look like if a given investment project proceeds in comparison with what would happen if the investment did not occur but simply whether there might be job losses associated with the investment. Indeed, in recent years, OPIC has actually tightened its procedures to refuse to consider projects in which there may be any job losses at home, not simply net job losses at home. This is an implausible standard by which to test for collective benefits to the United States when diverse industries are simultaneously expanding, contracting, and reconstituting themselves to become more competitive. OPIC's current US-effects test has led to an OPIC portfolio that is smaller than it could be, less development-friendly than it could be, and less supportive of workers (in both home and host countries) than it could be. The more appropriate test is for OPIC to assess whether US workers, firms, and communities would be better or worse off *overall* if a proposed investment project went ahead. This common-sense standard—identified as a *new* "US net economic benefits" test—should be incorporated into OPIC's authorizing legislation.

Helping small and medium-sized firms to become investors would at the same time help attenuate the problem of adverse selection by promoting greater diversification for OPIC.

Enlarging the Client Base and Revising Eligibility Criteria

Changes in OPIC's statutory restraints with regard to US effects along the lines outlined above could give access to a large pool of potential new clients, many of whom do not now even approach OPIC for support. A more "proactive" approach to marketing OPIC's services would be greatly enhanced by targeting, at the same time, small and medium-sized firms that find themselves at the point of moving from sending exports overseas to developing marketing and assembly operations abroad. To accomplish this, there is no need for OPIC to build up a vast new bureaucracy. Instead, the already-functioning infrastructure of the US Foreign Commercial Service, the US Export Assistance Centers, and the US Export-Import Bank—together with the Small Business Administration and with state and municipal business support services—can help identify firms ready to step up from exports to direct investment. Helping small and medium-sized firms to become investors would at the same time help attenuate the problem of adverse selection by promoting greater diversification for OPIC.

To complete the renovation needed in marketing OPIC's services, so as to maximize its contribution to the strength and vitality of the US home market, requires changing OPIC's eligibility criteria to allow participation by foreign-owned corporations with a substantial base in the United States. The United States is now the world's largest host for foreign multinational companies. Leading industries in the US economy find affiliates of non-US companies accounting for between 20 and 30 percent of all jobs in the industry. The US Export-Import Bank and other export promotion agencies have already recognized the benefits of assisting non-US firms to move into international markets using resources from within the US economy.

Given this situation, it is time for OPIC's statutes to be changed to permit it to support foreign-owned firms with a "significant US presence," defined as employing 250 or more, or 500 or more, workers in the US economy. This will allow foreign-owned firms to use US workers and suppliers as a platform to provide for their external operations rather than having to turn elsewhere for support. This principle is already established in the US Government Advocacy Guidelines, which deem support for foreign-owned, US-incorporated firms to be in the US national interest to the extent that these firms use US materials and equipment, employ US labor, contribute to the US technology base, and/or repatriate profits to the US economy.

Monitoring Workers' Rights, Environmental Standards, and Anticorruption Provisions

OPIC has extensive internal procedures to assess compliance with core labor standards, sound environmental practices, and anticorruption provisions in the projects it supports. Recurrent complaints—including allegations of serious abuses of workers' and human rights and of environmental standards, and corrupt practices in OPIC-supported projects—nonetheless persist.

Do OPIC procedures ensure that investors observe core labor standards, engage in sound environmental practices, and avoid corrupt practices—weeding out projects that do not, and punishing (or correcting) instances where OPIC-backed firms or their subcontractors are found to be in violation? A privileged look at various individual OPIC projects—under the constraints of an OPIC confidentiality agreement—shows that OPIC sends its own personnel to sites where workers' rights violations are most likely to be found, including among contractors and subcontractors during the construction phase of OPIC-supported investments.

In some cases, OPIC has used internationally recognized local monitors to help investigate abuses, leading to remediation plans that have included training in occupational health and safety, instruction in local legal rights by independent experts, and compensation for workers improperly fired when, for example, they have formed a legally recognized union. OPIC and host-country auditors have then monitored the implementation of these remediation plans, backed by default provisions in OPIC contracts in case the promised remediation is not carried out.

But where do these worker-friendly cases fit within the universe of OPIC-backed projects? What provisions are there for outside observers to track changes or improvements made at sites where there are prominent allegations of workers' and human rights abuses?

OPIC's practice has been to treat workers' rights cases as "business confidential," avoiding all publicity and requiring its auditors to sign and respect confidentiality agreements, in the hope that this will depoliticize such actions. But the penalty has been a lack of transparency in OPIC projects compared to some companies operating on the frontiers of the branded retail industry, where full, independent monitoring and disclosure of working conditions is becoming the norm. Therefore, OPIC should bring itself into conformity with the best practices of the international business community or at least ensure that its practices compare favorably to those of other public- and private-sector financial services companies.

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Similarly, an inside look at OPIC's environmental monitoring provides some reassurance. In certain instances, OPIC has been able to stimulate US companies to develop new environmental procedures, which the companies then follow in OPIC-sponsored projects and elsewhere. In other instances—for example, where host countries exhibit vague and ineffective regulatory regimes to govern ambient air quality or wastewater treatment—OPIC-supported projects have sometimes developed model practices that have subsequently become the industry standard in the host country.

But how representative are these environmentally friendly cases? How can outside observers track problematic investments? OPIC needs to devote more of its resources to informing local populations about environmentally sensitive project proposals, soliciting input from them, and using its Web site to allow external parties to track assessments. To complement this push for greater transparency, OPIC must make its environmental rejection criteria more explicit to the greatest extent possible, without violating the Trade Secrets Act, a criminal statute with a chilling effect on public officials' willingness to disclose information that could negatively impact a company's financial performance.

OPIC now renders private informal assessments of whether proposed projects meet its environmental standards before the formal application process so as to avoid public disclosures that might jeopardize external funding for the projects that fail. But if a project does not meet OPIC's standards—and its sponsors cannot or will not bring it up to OPIC's requirements—this fact, although not necessarily the identity of the sponsors, should be made public, if for no other reason than to enhance OPIC's credibility, along with the salutary effect of signaling the market that certain types of project impacts carry unacceptable environmental or social risks.

With regard to bribery and corruption, all OPIC insurance contracts and finance agreements require that the project company comply with the Foreign Corrupt Practices Act (FCPA) and with all similar local laws. A violation of these laws entitles OPIC to terminate the insurance contract or declare the borrower in default. Any OPIC-backed investor or borrower is liable for any bribery or corruption committed by any "agent" operating on its behalf. OPIC is required to suspend any entity guilty of violating FCPA from access to loans, insurance, or guarantees for up to five years.

Under FCPA, guilt or innocence must be determined by a US court. The US Department of Justice is responsible for criminal investigation and prosecution. OPIC reports that it investigates accusations appearing in the press (and elsewhere) about the projects it backs, and it refers all credible allegations to the Department of Justice.

In more than 30 years, however, OPIC has made such a referral just once, in the Enron-Dabhol case in India in 2002. Given the large number of allegations that have arisen in the infrastructure, oil, gas, and mining sectors where much of its business lies, it would seem evident that the Corporation should become more vigilant in its monitoring and, when justified, more disposed to turn over cases to the Justice Department. In contrast to the greater transparency in reporting monitoring results with regard to workers' rights and environmental practices recommended above, however, the presumption of innocence in criminal proceedings limits OPIC's ability to make adverse assessments about FCPA allegations public.

OPIC's current legislated mandates often make it more difficult for the Corporation to respond promptly to humanitarian or foreign policy crises.

The above recommendations about how OPIC can strengthen its procedures to ensure compliance with environmental, workers' rights, and anticorruption practices will unavoidably provoke concern, however, at the opposite end of the spectrum. That is, to what extent might such OPIC reforms with regard to monitoring and transparency become too onerous for clients that are already urging OPIC to cut back on burdensome requirements?

Streamlining OPIC's Operations

In light of complaints about slow service and arduous reporting requirements, OPIC has made efforts to speed the time cycle for consideration and approval of its projects. These efforts have involved pushing approval authority down to the vice presidential level and below and requiring fewer decisions at the level of OPIC's Investment Committee. All OPIC departments now feature a single point of contact for clients, and they have created a pipeline tracking system to trace projects and expedite the clearance process.

But the term streamlining often masks conflicts among objectives. It is admittedly difficult to reconcile the contention that OPIC's procedures for monitoring environmental and workers' rights are already too onerous and drive away investors with the proposal that OPIC needs to expand disclosure and facilitate external observation of whether its standards are being met.

There is no way to avoid ongoing debate about which approach will allow OPIC to fulfill its developmental mission more effectively. But the trade-offs may be less severe than might be supposed, if OPIC replicates international industry best practices with regard to transparency on issues of environmental and workers' rights. The result should be to push its clients toward the cutting edge of credible and workable monitoring and remediation, without invoking the criminal penalties of the Trade Secrets Act.

Of particular note, however, is the fact that OPIC's current legislated mandates often make it more difficult for the Corporation to respond promptly to humanitarian or foreign policy crises. However, OPIC's record in Central America and the Caribbean, following the natural disasters of the 1980s and 1990s; Eastern and Central Europe and the former Soviet Union, following the end of the Cold War; Africa in the context of the Millennium Challenge; and Central Asia in the wake of September 11, suggests that OPIC is usually able to quickly mobilize investment to respond to urgent foreign policy initiatives.

Recent crises should prompt OPIC to reevaluate how to prepare for project difficulties that spring from cross-border economic contagion rather than from deliberate host-country misbehavior.

Lessons Learned from Recent Crises

The presentation of actual or potential claims associated with the MidAmerican case in Indonesia in 1999, and with the Enron-Dabhol case in India in 2002, raises new questions—broader than what may be associated with these individual projects—for a political risk insurance agency such as OPIC. So also may the experiences of Argentina and Brazil in 2001–02.

These crises should prompt OPIC to reevaluate how to prepare for project difficulties that spring from cross-border economic contagion rather than from deliberate host-country misbehavior. The crises also should spur OPIC to find out how to separate genuine political risk from more general commercial risk during a regional economic downturn, so that its reserves do not end up being expended simply to compensate for the onset of recession.

The claims experience in these crises might provoke OPIC to look more closely at the terms and conditions of foreign investment agreements to determine whether they are excessive or imprudent in what they demand of host authorities. And the Argentine experience should force political risk insurers and investors alike to reevaluate whether the waiting periods on inconvertibility insurance are so long that the policies effectively lock the purchaser into exposure to a potentially huge devaluation.

OPIC Funds

OPIC's investment funds program provides loans to independent fund managers, who then raise equity capital in private markets and deploy the combined capital to a number of small projects in a given country or region. OPIC-supported funds have invested almost $2 billion in more than 200 firms in over 40 countries. Although fund managers make their own decisions about which projects to back, they are required to bring each proposed project to OPIC to ensure that it meets statutory requirements. This funds program has been structured to allow fund managers to use public monies, with OPIC absorbing high risk but receiving incommensurately lower rewards, whereas private partners have been able to enjoy potentially large rewards with proportionally lower risk.

OPIC has restructured the investment funds program along lines—only recently implemented—in which OPIC puts up a much lower proportion of the total capital, relying on the fund manager and partners to ante up more of their own money, while reserving for itself a larger percentage of the upside returns from successful funds. OPIC has also implemented a more competitive and transparent selection process for fund managers and has undertaken extensive work to document the developmental benefits of fund subprojects. The goal is to give OPIC an equity-like return when it takes an equity-like risk and to reduce the likelihood that a catastrophic loss from one fund could not be offset by profits from other funds.

Whether private fund managers can raise capital for deployment in riskier regions with less leverage provided from OPIC resources is a question that only the market can answer. If the answer is negative, OPIC's ability to stimulate investment in less developed countries may decline.

A Summing Up

The analysis presented here points to a small but crucial number of reforms and midcourse corrections that can prepare OPIC to make a substantially greater contribution to the growth of developing countries while simultaneously enhancing its contribution to US development (*and* thus broad foreign policy and humanitarian) goals, and its positive impact on workers, firms, and communities in the US home economy. This new OPIC will be able to play a much larger—and more transparent—role in ensuring that fundamental workers' rights, environmental standards, and anticorruption provisions are observed and strengthened throughout emerging markets. Looking to the future, through reform, OPIC will become thoroughly capable of withstanding rigorous scrutiny as a US-government-backed agency that complements and leverages vigorous private-sector activity around the world in the promotion of economic and social development, and thus of greater world prosperity and stability.