096142 4.50.05

REPORT TO THE SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE 74-0118

LM096142

Management Of Investment Insurance, Loan Guarantees, And Claim Payments By The Overseas Private Investment Corporation

B-173240

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

~~701604~~ 096142

JULY 16, 1973

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-173240

The Honorable Frank Church
Chairman, Subcommittee on Multinational Corporations
Committee on Foreign Relations
United States Senate

Dear Mr. Chairman:

This is the report you requested on the management of the Overseas Private Investment Corporation (OPIC).

Your letter of September 21, 1972, asked that we give particular attention to:

1. The adequacy of OPIC procedures for establishing exposure levels and political risks. OPIC has taken a number of steps to share risks and set limits on the degree of concentration of insurance coverage in individual countries. Its monitoring system appears to be adequate to provide current information to assess political risks, and we have no specific recommendations for improving OPIC's procedures. (See pp. 12 to 34.)

2. The level of exposure in Latin America, particularly in Brazil. This information has been provided to the staff of the Subcommittee. Data concerning Brazil is on page 32 of the report.

3. The adequacy of OPIC claim procedures, particularly the handling of the claim of the International Telephone and Telegraph Company in Chile. We previously advised your staff that we were not permitted access to OPIC files of open claims and claims in which arbitration was pending, including this company's claim. Therefore, we are unable to respond fully to this question. Information on OPIC settlements available for our review is on pages 40 to 49.

4. OPIC experience with the extended risk program, particularly in the Dominican Republic and Thailand. OPIC programs in these countries is summarized on page 33. Further information on this subject has been provided to the Subcommittee staff.

By request of the Subcommittee staff, we have not followed our usual practice of obtaining the comments of the President of OPIC on this report.

We believe that the contents of this report would be of interest to other committees and other Members of Congress. However, we will not release it unless you agree or publicly announce its contents.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

Contents

ABBREVIATIONS

GAO General Accounting Office

OPIC Overseas Private Investment Corporation

COMPTROLLER GENERAL'S REPORT TO THE SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS SENATE COMMITTEE ON FOREIGN RELATIONS

MANAGEMENT OF INVESTMENT INSURANCE, LOAN GUARANTEES, AND CLAIM PAYMENTS BY THE OVERSEAS PRIVATE INVESTMENT CORPORATION B-173240

DIGEST

WHY THE REVIEW WAS MADE

At the request of Senator Frank Church, Chairman, Subcommittee on Multinational Corporations, Senate Committee on Foreign Relations, GAO has reviewed the management of investment insurance, loan guarantees, and claim payments by the Overseas Private Investment Corporation (OPIC).

FINDINGS AND CONCLUSIONS

Eligibility for coverage

OPIC has made good progress in initiating procedures to obtain more comprehensive information relating to the developmental effects of projects.

Risk management

OPIC's concern, as it attempts to conduct its insurance program with due regard to principles of risk management, logically focuses on its vulnerability to catastrophic losses.

The potential for such losses is contingent on the concentration of insurance by country and industry and the size and form of investments insured.

OPIC efforts to reduce its risk include

--coinsurance with investors,

--participation with foreign nationals and organizations in insured projects,

--modification of contractual terms, and

--seeking to increase the number of countries participating in the insurance program.

OPIC's assessment of political risk in countries with insured projects forms the basis for decisions to suspend or terminate insurance programs.

Conclusions relating to the facets of risk management discussed in the report follow.

Exposure to catastrophic losses

Setting limits on the concentration of insurance coverage in individual countries is desirable in order to avoid increasing the potential for a catastrophic loss.

However, even with the limited concentration, catastrophic losses would compel OPIC to ask the Congress for funds to satisfy claims, since OPIC insurance reserve and unrestricted retained earnings (about $150 million at Dec. 31, 1972) are much less than the potential liability in these countries.

Sharing of risk

In consonance with its legislative mandate, OPIC has made considerable

Tear Sheet. Upon removal, the report cover date should be noted hereon.

progress in sharing its financial risk although it still retains the primary risk for catastrophic losses. Reinsurance contracts have been negotiated, and OPIC has accepted and expanded the use of coinsurance as a risk management practice. Private U.S. companies have participated in the financial risks on a limited basis.

Contractual changes

The new loan contract, and contractual changes, should reduce OPIC risks significantly. Some of these changes were made comparatively recently so OPIC has not had sufficient experience to determine how acceptable the changes will be to investors.

Assessment of political risk

The OPIC monitoring system appears adequate to provide access to the most current and complete information available to assess political risk in program countries. Thus OPIC has a reasonable basis for decisions to suspend or terminate an insurance program.

However, due to the long-term, noncancelable nature of OPIC insurance contracts, the risk assessment system can only prevent acquisition in incremental liability in a high-risk situation; the existing contracts remain vulnerable to whatever political actions occur.

Monitoring project results

OPIC recognizes the need to expand its monitoring efforts for insured projects. Additional attention is being given to periodic monitoring of large and sensitive projects. If these project reviews disclose a pattern of project results not in accord with OPIC objectives, the reviews should be extended to provide some coverage of smaller projects.

Any evidence indicating that investors' insurance applications contain substantial misrepresentations would need to be analyzed to determine whether termination of the insurance coverage was warranted.

Claim settlements

The limited number of claim settlements available for review does not enable GAO to make any overall conclusions on the general adequacy of procedures, guidelines, and criteria used by OPIC in evaluating claims presented by companies. OPIC has been unable to obtain independent opinions on some claims because the books and records of the insured foreign enterprises were not available due to actions by the foreign governments.

OPIC has made reasonable efforts to avoid loss through devaluation of foreign currencies obtained through inconvertibility claims.

GAO mailed questionnaires to 21 investors to obtain their views on OPIC's handling of their claims. Fourteen of the replies were responsive, and the claimants were generally satisfied with OPIC's handling of their claims.

Insurance for projects that export primarily to the United States

OPIC has given increased attention to the problem of insuring runaway industries. Although our review disclosed limited information in OPIC files in earlier cases, we believe that more recent OPIC procedures, if properly implemented, should provide reasonable assurance that U.S. interests are protected.

CHAPTER 1

INTRODUCTION

At the request of Senator Frank Church, Chairman, Subcommittee on Multinational Corporations, Senate Committee on Foreign Relations (see app. I), GAO has reviewed the management of investment insurance, loan guarantees, and claim payments by the Overseas Private Investment Corporation (OPIC).

The investment insurance program is to encourage and stimulate development abroad by reducing the risks that accompany foreign investment. Insurance contracts can be written to cover any or all of the following political risks.

1. Inability to convert to dollars, local currency received by the investor as profits or earnings or return of the original investment.

2. Loss of investment due to expropriation, nationalization, or confiscation by foreign governments.

3. Losses as a result of war, revolution, or insurrection.

The maximum coverage under contracts, as of December 31, 1972, insured by OPIC and the Agency for International Development (AID), including predecessor agencies, follows.

	Issued by		
	AID	OPIC	Total
	(millions)		
Expropriation	$2,924	[a]$ 505	$3,429
War risk	2,416	381	2,797
Inconvertibility	2,734	412	3,146
	$8,074	$1,298	[b]$9,372

[a]Includes claims settlement guarantees of $84 million.

[b]To provide investors with coverage for planned increases in insured investments and retained earnings, standby coverage may be contracted for and may be converted, on the anniversary date of the contract, to a current basis. The amounts of standby insurance including these figures as of December 31, 1972, were: expropriation--$899 million; war, revolution, and insurrection--$718 million; and inconvertibility--$2,344 million.

OPIC, as of December 31, 1972, had a reserve of $126.4 million to meet claims on insurance contracts. (There is no statutory requirement as to the amount of reserve.)

OPIC estimates that, in the past 5 years, political risk insurance has covered about two-thirds of U.S. private investment, excluding petroleum, in the eligible developing countries.

OPIC also participates in project financing through U.S. Government guarantees of payment on medium- and long-term loans made by U.S. investors. These guarantees cover commercial as well as political risks of investing in less developed countries. OPIC is required to maintain a reserve equivalent to 25 percent of the amount of outstanding guarantees to pay for any losses incurred under the program. As of December 31, 1972, there were guarantees authorizing 23 projects amounting to $198.2 million. Six of these, amounting to $25.7 million, were issued by OPIC and the balance by AID.

We did not review such smaller OPIC programs as loans from its own resources, preinvestment assistance, community credit guarantees, and Cooley loans. AID administered these programs until they were transferred to OPIC under Executive Order 11579 on January 19, 1971.

The management of OPIC is vested in a board of 11 directors, whose chairman is the Administrator of AID. Six of the directors are selected from outside the Government. At least one of these directors is to be experienced in small business, one in organized labor, and one in cooperatives. The other directors are to be Government officials, including the president of OPIC. All OPIC directors are appointed by the President of the United States. (See app. V.)

GAO annually audits OPIC pursuant to the Government Corporation Control Act (31 U.S.C. 841). The most recent report, "Audit of the Overseas Private Investment Corporation, Fiscal Year 1972" (B-173240, June 1973), presented our opinion on OPIC's financial statements and related matters. In particular, we concluded that, due to the many imponderables affecting both potential claims and the contingent liability OPIC has incurred as a result of other contracts of insurance and guarantees in force, we could not express an opinion on the adequacy of the amount reserved for losses OPIC may suffer because of the insurance and guarantee contracts. If claim settlements exceed available reserves, OPIC will need to request supplementary funds from the Congress. Section 237(c) of title IV of the Foreign Assistance Act of 1969, as amended, provides that full faith and credit of the United States is pledged for the full payment and performance of obligations incurred by OPIC under its insurance and guarantee contracts.

CHAPTER 2

ELIGIBILITY FOR COVERAGE

OPIC relies heavily on the information in the formal insurance application in judging the merits of a project for insurance. Therefore, it is to OPIC's advantage to have as much and as accurate data as available. The eligibility requirements for insurance coverage and loan guarantees which had limited relationship to potential risks are described in appendix II.

The application form OPIC has used since early in 1971 asks for more specific information than the form used by AID. The additional information concerns

--the developmental effect of the project on annual revenues, local investment and expansion, prices of major products, and ecology;

--the estimated amount of local capital and raw materials to be used in the project;

--protective tariffs applicable to items produced or to major imported materials used;

--the estimated time a project needs to become competitive and profitable without protective tariffs.

Projects must be approved by the host country government. It is expected that the appropriate agency of the foreign government will consider the proposed investment in the light of its development impact and objectives, as well as its resource requirements, when approving the project.

Copies of both the request for registration and the formal application for insurance coverage are forwarded to either the U.S. Embassy or AID Mission in the host country and to the country desks of AID and the State Department in Washington, D.C., to keep these agencies informed of OPIC activities and the investor's representations concerning proposed investments. OPIC requests these agencies to comment on the projects. The agencies also assist investors who may be experiencing difficulty in obtaining responses to requests for approval from the host countries.

Ordinarily a contract of insurance will not be executed without a favorable recommendation from the U.S. Embassy or AID Mission in the host country. Such recommendation is usually based on a developmental evaluation of the project.

We reviewed 30 of the 207 insurance contracts issued by OPIC from January 1971 through August 1972, and 3 of the 6 investment guarantees issued as of December 31, 1972. From the information provided by the applicants and OPIC, the projects appeared to meet the eligibility requirements for such coverage.

DEVELOPMENTAL IMPACT

In March 1972, OPIC instituted preliminary guidelines for analyzing the developmental impact of all projects on the host countries, involving $1 million or more of OPIC-insured investment. These guidelines, revised in July 1972, were intended to aid insurance officers in judging the merits of projects proposed for insurance coverage. The insurance officer applies the guidelines in analyzing, summarizing, and evaluating the developmental impact estimates obtained from the applicant or other sources and covering such of the following factors as may be critical in judging a project's effect on the host country's economy.

1. Foreign exchange--A project is acceptable if its first 5 years of operation produces a positive net foreign exchange contribution to the country. A project is rated good if, in addition, the sum of its exports and import replacements is 150 percent or more of investor repatriations.

2. Domestic revenue--A project is acceptable if its tax payments to the host government in the first 5 years of operations are equal to average payments by comparable enterprises in the same industry section of the country. A project is rated good if its annual average tax payments, less duties on replaced imports, equal 10 percent or more of total investment.

3. Tariff protection for product--A project is acceptable if quantity restrictions on competing imports are less than 100 percent and preceded the project, duties on such imports do not exceed 50 percent, and protection will

be needed less than 8 years. A project is rated good if competing imports are not restricted in quantity, tariffs are less than 30 percent, and protection is needed 5 years or less.

4. Local capital mobilization--A project is acceptable if it has any local capital investment. A project is rated good if it has substantial local private investment.

5. Local market price of the product--A project is acceptable if its products will be priced no higher than 20 percent above current local prices and if the project has a strong positive effect on the country's balance of payments. A project is rated good if its product will be priced lower than current local prices for comparable products.

6. Effect on local suppliers and/or downstream industries--A project is acceptable if it provides any incremental stimulus for local industries. A project is rated good if it substantially increases the local market for production of supplies and components or plans local fabrication, packaging, or distribution of the end product.

7. Employment and skill creation--A project is acceptable if it will significantly increase employment and includes specific plans for local staff training. A project is rated good if total new investment divided by total employment in the 5th year is $10,000 or less.

8. Other significant factors--A project may receive a rating of adverse, acceptable, or good in this category if significant factors, such as technological contributions or ecological impact, not considered in the other seven categories exist.

We applied these criteria to 17 selected projects insured by OPIC before it used these guidelines to determine what effects they would have had in the approval of the projects. The results of our examination show that OPIC will in the future obtain more information relating to the developmental effects of a project on the host country.

Category	Good	Accept-able	Adverse	Information not furnished by applicant
Host country foreign exchange	8	5	1	3
Domestic revenue	3	2	7	5
Tariff protection on product (note a)	2	-	-	11
Local capital mobilization	7	1	8	1
Local market prices of product(s)	3	6	-	8
Effects on local suppliers or downstream industries	8	3	4	2
Employment and skill creation	3	8	4	2
Other significant factors	4	1	-	12
Total	38	26	24	[b]44

[a]Four additional projects concerned products manufactured under bond for export only.

[b]The large number of "not furnished" items is due to the nonspecific quality of the old application. The guidelines and the analysis form were especially designed to match the specific questions on the new application.

Individual adverse factors in the table do not necessarily preclude projects from consideration for insurance; OPIC may need to make a subjective determination on whether the positive development effects are more significant than the adverse effects. It is not unexpected that a project may have some adverse effect. The adverse effects in the table are explained below.

Host country foreign exchange--The one project listed will not replace any foreign imports or generate any exports. However, it will require imports of $175,000 in materials for production. The net savings or earning are negative.

Domestic revenue--None of the seven projects listed will produce significant domestic revenue. Host countries usually grant tax holidays of 5 to 10 years to new businesses with foreign investments. In each case termination of the tax holiday would not affect the significance of the domestic revenue, therefore they are considered adverse.

Local capital mobilization--U.S. investors owned 100 percent of five of the eight projects seeking insurance and contemplated no local investment. One project was owned by two U.S. corporations, one of which was seeking to insure its portion of the investment under the contract reviewed. Another was a partnership between United States and Swiss corporations--the U.S. corporation was seeking insurance on its portion of the investment. The remaining project had many foreign and U.S. investors, and no local capital was involved. The U.S. investors applied for insurance on their portions of this investment.

Effects on local suppliers or downstream industries--Two projects will have no stimulus on local suppliers or downstream industries. One will send parts from the United States to the foreign enterprise to be assembled for export back to the United States, and the other will produce an item for downstream industry which was formerly imported from Japan. One of the remaining two projects will improve port handling facilities and thereby save foreign exchange costs, and the other will expand an oil refinery in-country to replace imports. Neither of these will necessarily stimulate local suppliers or downstream industries.

Employment and skill creation--Three of these projects were judged adverse because there were no specific plans for local staff training. The fourth project did not require a significant number of employees.

CONCLUSIONS

OPIC has made good progress in initiating procedures to obtain more comprehensive information on the developmental effects of projects.

In chapter 4 we discuss OPIC's efforts to monitor the effects on U.S. interests, the development effect on host countries, and the continued compliance with statutory and policy requirements. Information obtained through these efforts will, in our opinion, be useful to management in evaluating the adequacy of eligibility requirements.

CHAPTER 3

RISK MANAGEMENT

OPIC concern as it attempts to conduct its insurance program with due regard to principles of risk management logically focuses on its vulnerability to catastrophic losses. The potential for such losses is contingent on the concentration of insurance by country and industry and the size and form of investments insured.

OPIC efforts to reduce its risk include coinsurance with investors, participation with foreign nationals and organizations in insured projects, and seeking to increase the number of countries participating in the insurance program. Modifications of contractual terms in the last several years should also affect OPIC's risk exposure.

OPIC assessment of political risk in countries with insured projects forms the basis for decisions to suspend or terminate the insurance programs. A discussion of these matters follows.

EXPOSURE TO CATASTROPHIC LOSSES

Country and industry concentration

During the 1960s AID apparently was not concerned with the concentration of insurance coverage in a few countries and industries. Consequently the insurance portfolio OPIC assumed in January 1971 had such concentrations. For example, at December 31, 1972, the active contracts issued by AID concentrated coverage largely in seven countries.

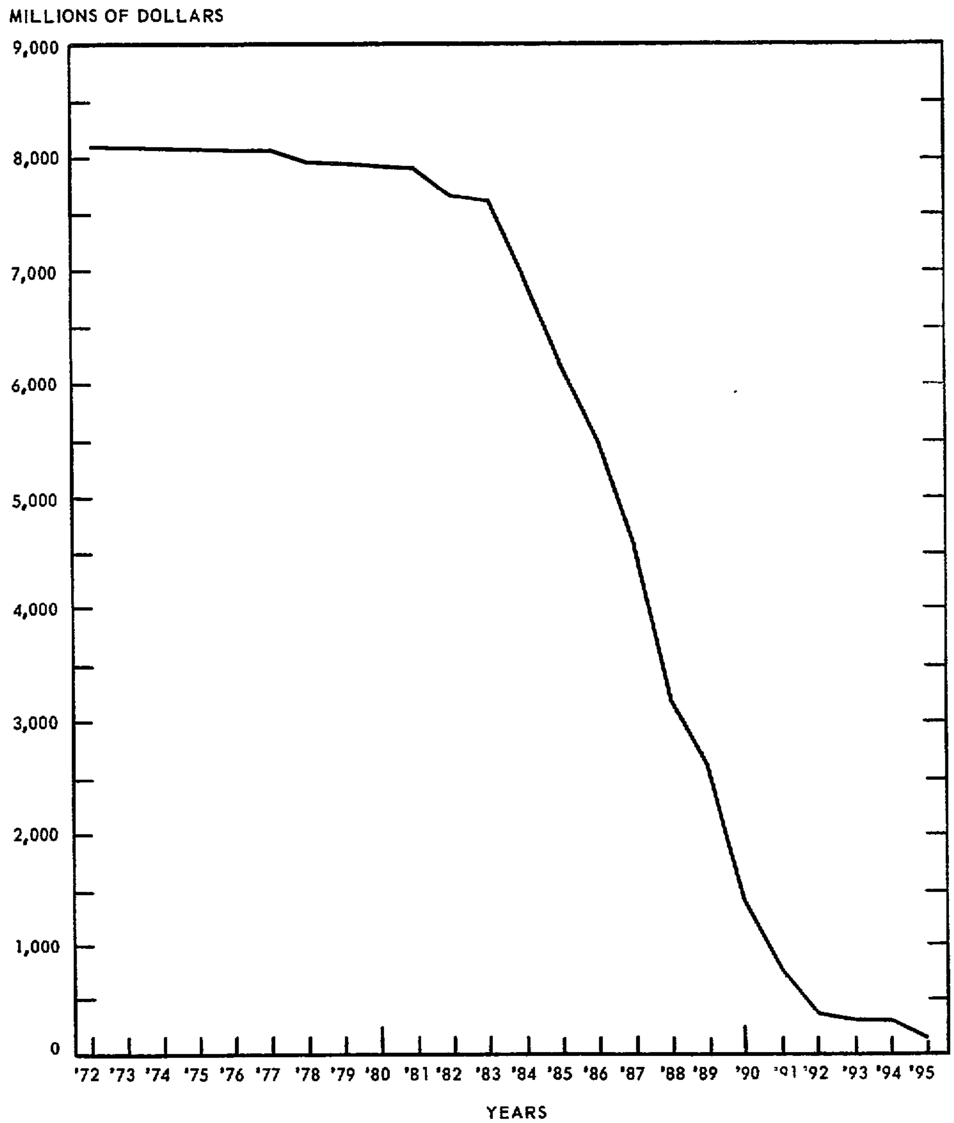
Country	Inconvertibility	Expropriation	War risk
	(percentage of portfolio)		
Argentina	7.5	3.6	3.2
Brazil	7.9	6.1	6.8
Chile	10.1	8.4	3.1
Dominican Republic	7.7	7.3	8.6
India	6.4	5.1	5.0
Jamaica	1.4	17.8	21.5
Korea	11.0	8.0	11.7
Total	52.0	56.3	59.9

Since the AID contracts were generally for 20 years, and the average age of coverage was less than 6 years as of January 1973, a high degree of concentration will persist for many years.

The following analysis of expiration dates for all AID-issued coverage indicates that the coverage will not begin to be significantly reduced until at least 1982.

END OF YEAR BALANCES OF INSURANCE ISSUED BY AID AND PREDECESSOR AGENCIES

(BASED ON CONTRACT TERMINATION DATES FOR ACTIVE CONTRACTS OF DECEMBER 31, 1972)



At the end of 1985, the total AID-issued coverage will be about $6 billion, or 75 percent of the present $8 billion coverage. Thereafter, the coverage will decline rapidly to less than $1 billion in 1991.

OPIC believes that high exposure in a country could increase the possibility of adverse political action, and the high concentration leaves the program open to the possibility of insolvency resulting from the actions of one of several countries. From March 1971 through March 1972, OPIC limited coverage growth in countries where concentration in any one category of insurance exceeded 10 percent of worldwide coverage for that category. The limit permitted new coverage in amounts up to 1 percent of total OPIC coverage for that category. However, in April 1972 OPIC increased the growth limit to 2 percent because of the reduction in its overall insurance portfolio.

Although the policy is much more restrictive than that of earlier insurance programs, it does permit OPIC to issue a relatively large share of its new coverage in one country. For example, during 1972 a 12-percent share of the end of year coverage exceeded a 10-percent share of the beginning coverage by the following amounts: $42 million, expropriation insurance; $20 million, war risk insurance; and $14 million, inconvertibility insurance. OPIC also set specific limits of coverage for new insurance in Korea and Jamaica.

	New percentage limit	
	Jamaica	Korea
Inconvertibility	10	14
Expropriation	16	11
War risk	19	16

Although OPIC has taken a stand against concentration of insurance coverage, the insurance issued in its first 2 years of operation has tended to concentrate in a few countries, including two countries that accumulated concentrations under AID. The following schedule reflects concentration of insurance coverage, as of December 31, 1972.

Country	Inconvertibility	Expropriation	War risk
	(percentage of portfolio)		
Botswana	8.5	6.2	9.2
Brazil	14.6	15.0	14.0
Republic of China	8.4	6.1	7.5
Indonesia	13.3	13.0	13.4
Israel	3.2	6.5	5.7
Korea	22.9	12.6	25.7
Philippines	6.5	5.1	3.8
Total	77.4	64.5	79.3

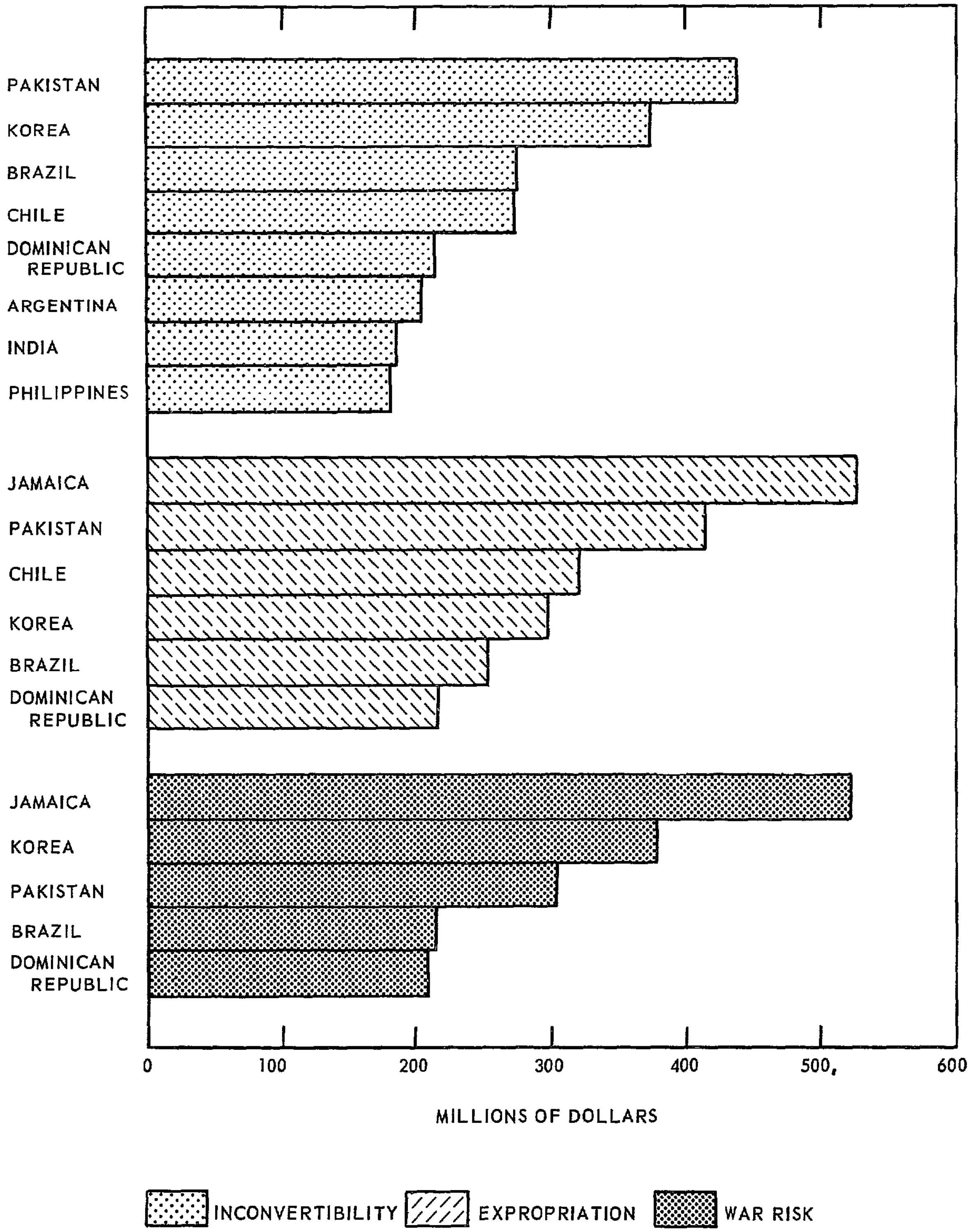
The chart on page 16 shows the amount of insurance coverage by type for countries with concentrations of insurance exceeding 5 percent of the worldwide total as of December 31, 1972. OPIC, like AID, continued to concentrate insurance coverage in Brazil and Korea while such countries as the Republic of China, Indonesia, and the Philippines replaced Chile, the Dominican Republic, and Jamaica as countries of emphasis.

OPIC policies provide for the limited growth of coverage in countries of concentration in any field regarded as sensitive to expropriation risk or especially vulnerable to physical acts of war. This limitation denies insurance for any project that would make the industry coverage in that country more than half the existing insurance reserve.

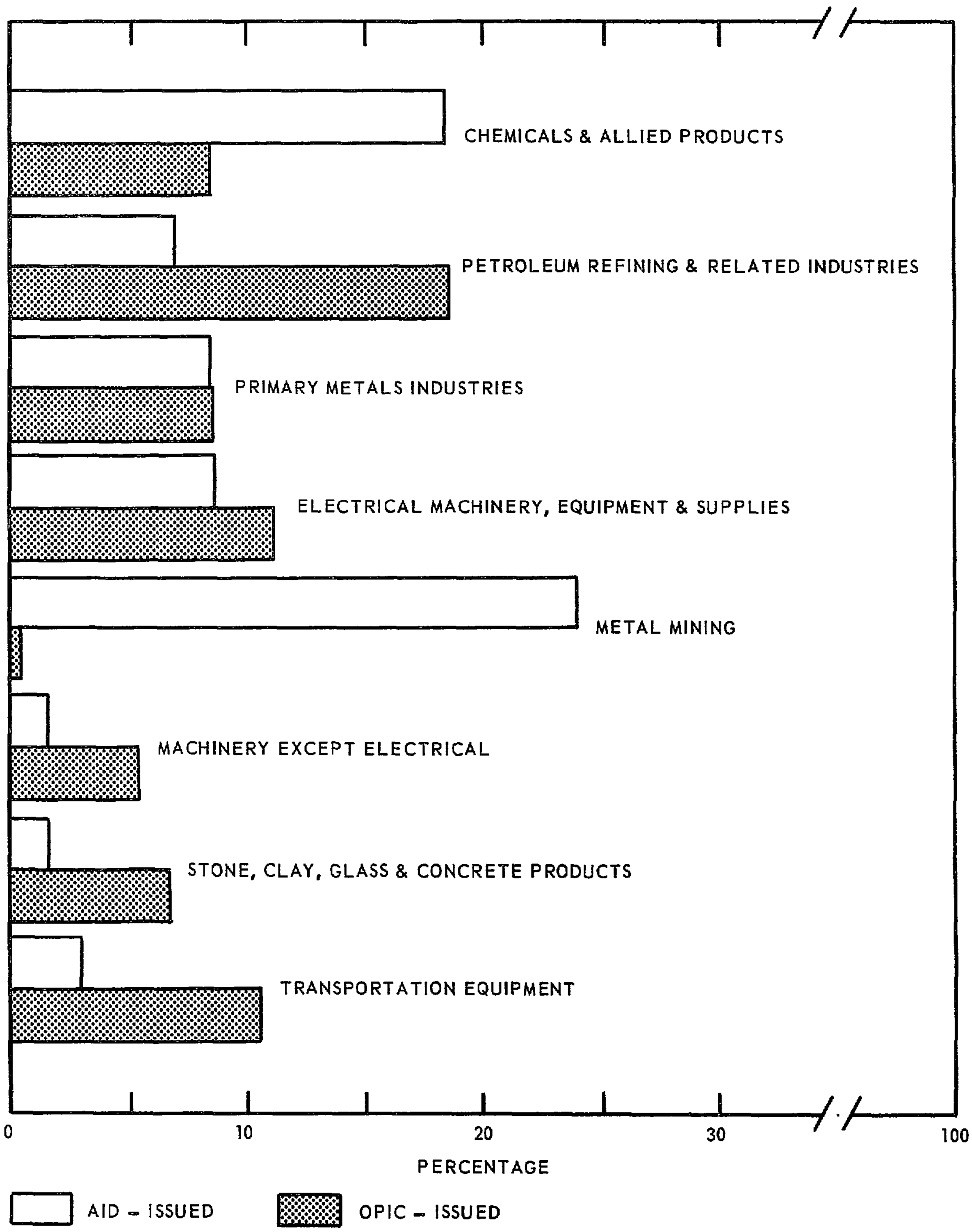
The chart on page 17 shows for the December 31, 1972, portfolio the significant industry concentrations of coverage issued by OPIC and by AID and predecessor agencies. We used the industry identifications assigned by OPIC and summarized the coverages according to standard industry codes and groupings.

Our analysis showed that 83 percent of OPIC coverage was for manufacturing industries and that none of the seven other major industry groups had more than 4.3 percent of the OPIC coverage. Less than 1 percent of OPIC coverage applied to mining and extractive industries. In contrast, 61 percent of the coverage issued by AID was concentrated in manufacturing and 24 percent in mining and extractive industries. None of the other industry groups had more than 4.9 percent of the outstanding coverage.

COUNTRIES OF CONCENTRATION – WORLDWIDE INVESTMENT INSURANCE BY TYPE OF COVERAGE AS OF DECEMBER 31, 1972



AID – OPIC INSURANCE COVERAGE BY INDUSTRIES OF CONCENTRATION *
DECEMBER 31, 1972



*All industries are manufacturing except metal mining

On an individual industry basis, OPIC's largest concentration was 18.3 percent in petroleum refining, with four other manufacturing industries having concentrations of 8 to 11 percent. Other industries had coverage of 6.7 percent or less of the OPIC portfolio.

The AID portfolio had large concentrations in two industries--metal mining, 23.9 percent, and manufacturing of chemicals and allied products, 18.2 percent. Three additional manufacturing industries had concentrations of more than 5 percent of the AID coverage--petroleum refining, 7 percent; primary metals processing, 8.3 percent; and electrical machinery, 8.6 percent.

The OPIC portfolio is more evenly distributed among the various industries than was the AID portfolio. The latter had 42 percent of its coverage concentrated in two industries compared with OPIC's 29 percent. Considering five industries as a measure, OPIC concentration was 56.6 percent compared with AID's 66 percent. Further, OPIC has avoided mining and extractive industry projects, which are generally considered high risk, and declines to insure projects for oil exploration.

Concentration in large projects

OPIC considers large projects to be a greater risk than small ones and has adopted policies to either discourage large projects or make them less risky. It generally requires substantial coinsurance, offers shorter contract periods, and assesses higher fees on large projects.

To determine whether OPIC policies have altered the degree of concentration in large projects, we contrasted the amounts of insurance coverage before and after OPIC. Our analysis indicated that OPIC has lessened, to some degree, the concentration in large projects. For example, OPIC's average coverage was about $1,942,000, or some $640,000 less than the average issued by AID and predecessor agencies. Considering $10 million as a large project (OPIC uses $25 million as a criterion for large), the OPIC portfolio has 38.9 percent of its coverage on large projects while AID and its predecessor agencies had 57.5 percent on large projects. Medium-size projects ($1 million to $10 million) in the OPIC and AID portfolios accounted for 49.8 percent and 34.7 percent, respectively, of total coverage issued. Small projects, although accounting for more than 60 percent of the number of coverages in both portfolios, represented only 11.2 percent and 8.1 percent of the OPIC and AID amounts of coverage, respectively.

Forms of investments insured

The insurance program has provided coverage for various forms of investment. Most coverage has been for projects financed by equity, loan, or combined equity and loan investments. Other forms of investments insured were patents and royalties, fees, and personal property. In addition, AID used a special "Lenders Contract" to distinguish between loan investments made by institutional lenders (insurance companies, trust funds, banks) and other commercial loans.

OPIC believes that loan investments generally involve less risk than equity investments because defaults on loans could adversely affect a country's international credit rating; in addition loan investments are more likely to receive reasonable compensation in the event of expropriation because the amount and payment terms of the debt are fixed in the debt instrument that was agreed to by the host country. OPIC has recognized the lower risk by instituting a lower premium rate for expropriation coverage of debt investments.

We analyzed the current insurance portfolio to determine whether coverage by OPIC included a greater proportion of loan investments than coverage by AID. The data available indicated the opposite--that 58 percent of OPIC coverage was for equity and 28 percent for loans while outstanding AID coverage was 48 percent for equity and 33 percent for loans. However, our analysis was incomplete because information on the composition of combined equity and loan coverages was not available. These investments usually begin as loans and are converted to equity as the loans are repaid. This type of coverage represented 5.5 percent of OPIC coverage and 17.7 percent of AID coverage. If we assume that all of the combined coverage issued by OPIC is in the loan stage and that AID combined coverage is half loan and half equity at the present time, then the proportions of equity and loan coverage for both portfolios are almost identical.

	Equity	Loan
OPIC coverage	57.9%	34.0%
AID coverage	56.6%	32.2%

It should be noted that the reduced premium rates for loan investments were adopted in December 1972 and had no effect on the investors' selections of form of investment for the coverage used in our analysis.

Conclusions

Limiting the degree of concentration of insurance coverage in individual countries decreases the potential for a catastrophic loss to the insurance program. However, even with limited concentration, catastrophic losses would compel OPIC to ask the Congress for funds to satisfy claims, since OPIC's insurance reserve and unrestricted retained earnings (about $150 million at Dec. 31, 1972) are much less than the potential liability in these countries.

SHARING OF RISK

Reinsurance

Authorizing legislation directed that OPIC share its insurance risks when appropriate and explore the possibilities of transferring all or part of its activities to private U.S. business groups.

During 1971, its first year of operation, OPIC management approached representatives of U.S. reinsurance companies, the Reinsurance Association of America, and the Lloyds insurance group of London. OPIC negotiated a reinsurance contract with Lloyds and other participating underwriters in December 1971 and continued to seek other sources of reinsurance during 1972. Two additional approaches to risk sharing were proposed and were under consideration at the time of our review.

One risk-sharing plan, proposed by OPIC, included a reinsurance association to be composed of government agencies of several developed countries presently operating insurance programs for foreign investments. This association would provide only nominal financial relief for losses. Instead, it would serve primarily as a focal point to encourage expropriating governments to provide reasonable compensation for expropriated property. As proposed, the association could also provide mediation and appraisal services to settle international disputes over foreign investment insurance.

A second OPIC proposal included an association of U.S. insurance companies. Since August 1972 a group of insurance company officials, sponsored and assisted by OPIC, has been studying the feasibility of such an association. The group reported several alternatives in December 1972 but recommended that the proposed association directly underwrite political risk insurance, with OPIC reinsuring all war risks and catastrophe portions of inconvertibility and expropriation liabilities. The group expressed reservations that the association could be arranged on a financial basis acceptable to both the private sector and OPIC and recommended that an insurance committee be formed to study this matter and the proposed organization and operation of such an association. The committee included the original group and six additional members from the business and academic communities.

Although OPIC could not extend risk sharing to additional parties during 1972, it was successful in renewing the reinsurance coverage with Lloyds in an increased amount for 1973. The 1973 contract provides coverage of 50 percent of OPIC's current expropriation insurance, to a maximum liability of $14 million per country. The reinsurance applies in all countries, except Chile, where OPIC has, or currently offers, expropriation coverage. The estimated amount of reinsurance coverage is $410 million.

The $14 million maximum liability per country is almost double that provided by the 1972 contract. The increase is particularly notable since the initial reinsurance contract has not yet proved its profitability for the reinsurers. At the time the 1973 contract was negotiated, the reinsurers had been notified of potential claims for which their contingent liability would be $6.9 million, or almost seven times the total reinsurance fee.

The contract reserves to OPIC the right to make all decisions on issuing insurance policies; administering the insurance program; and paying, settling, or rejecting claims. The reinsurer, in effect, has only a financing function and receives fees and pays a share of claims as determined by OPIC. The reinsurer does have the right, on 30 days' advance notice, to decline to reinsure new coverage in a particular country.

The reinsurer receives 85 percent of the portion of the annual fees collected by OPIC for the current amount of expropriation insurance in each country appliciable to the reinsurer's maximum liability. The reinsurance fees for 1973 are estimated at $1.7 million compared with $1.1 million for 1972.

The maximum liability of the reinsurers is 50 percent of the amount insured by OPIC for any claims in the 47 countries having $28 million or less of current expropriation coverage. In 17 other countries, the reinsurer's maximum liability is a percentage of the amount insured by OPIC, determined by dividing $14 million by the total amount of current expropriation coverage. For example, in a country with $56 million of current expropriation coverage, the reinsurer would be liable to pay 14/56, or 25 percent of the amount paid by OPIC for any claims.

The 1973 reinsurance contract indicates increased interest in the program by private U.S. companies. Seven U.S. insurance companies are participating in the reinsurance and have a total maximum per country amount of $445,000, or about 3.2 percent of the coverage.

Coinsurance

A policy initiated by AID to restrict the extent of insurance coverage for large or sensitive projects was endorsed by OPIC on March 8, 1971. The policy generally reduced coverage from that previously available by

--reducing the term of coverage from 20 years to 12 years,

--limiting coverage to the amount of original investment while standard coverage would have insured reinvested earnings up to 100 percent of original investment, and

--providing for periodic predetermined coverage reductions based on depreciation, amortization, or projected profit repatriation.

The criterion for large projects was $25 million, and sensitive projects included investments in utilities, communications, transportation, mineral extraction, and mineral refining or processing near the point of extraction. Projects which received special host country benefits not generally accorded other investors were also considered sensitive.

The reduced insurance coverage has the effect of making the investor self-insured for (1) all reinvested earnings, (2) increased portions of his original investment, and (3) his entire investment after the 12th year. It is OPIC's view that coinsurance encourages the investor to act in a responsible manner to minimize the risk to both the investor and OPIC.

In October 1971, OPIC adopted a policy providing alternative insurance coverage for large or sensitive projects. The alternative permitted full standard coverage for 20 years for inconvertibility and war risk. These risks are generally not subject to influence by the investor. The new policy also provided for an optional 8-year extension of expropriation coverage at OPIC's discretion. The extension would cover 50 percent of the original investment and would be noncancelable. The new policy was also more specific on declining coverage. It provided for coverage of 90 percent of equity investment during the first 3 years of the contract, declining at an annual rate of 10 percent thereafter to a minimum coverage of 50 percent in the 7th year.

Both the original and alternative policy statements were written in terms which permitted flexibility of application depending on circumstances and factors peculiar to specific projects. Accordingly, the coverages written for the 18 large or sensitive projects from December 1969 through December 1972 had varying special provisions designed to implement the policy. The 18 projects, which include insured investments amounting to $766.5 million, have a total of 27 contracts, 24 of which were written for less than the standard 20-year term, and most running for 12 to 16 years. For 23 contracts, the original expropriation coverage was less than the standard maximum; generally this coverage was about equal to, or less than, the amount of investment. In addition, 21 of the contracts included provisions for reducing the expropriation coverage in future years on the basis of a predetermined formula.

The restrictions discussed above have reduced OPIC's current and future contingent liabilities hundreds of millions of dollars below the standard coverages that could have been written under earlier underwriting policies. For example, two of the larger equity contracts were issued with original amounts of expropriation coverage $265 million less than standard coverage. These same contracts have declining-balance clauses which will reduce OPIC's contingent liability in future years; one will decline by $8 million a year beginning in 1973, and the other by $13 million a year beginning in 1978.

OPIC has also moved to expand the use of the coinsurance principle by including a first-loss deductible clause in the revised standard contract for noninstitutional debt investments. This clause requires the investor to be self-insured for the first 15 percent of any claim which may arise.

The revised contract was adopted in December of 1972; therefore OPIC has not had sufficient experience to determine whether the self-insurance factor will be acceptable to investors.

Multinationalization

Multinationalization refers to a joint venture, or consortium, in which investors from two or more countries join together to implement an investment project. OPIC considers that, for large projects, multinationlization can reduce the risk of expropriation on the basis that the host country will realize that it is likely to face international condemnation for acts violating international law when investments of more than one country are involved. OPIC has encouraged, and in some cases required, multinational participation for large insured projects, and in December 1972 OPIC instituted reduced insurance fee rates for projects with such participation.

Multinationalization is not a new concept. Many insurance contracts issued prior to OPIC were for projects with such participation. Granting financial incentives as encouragement, however, is an OPIC innovation. The fee reduction was based primarily on subjective factors, and only future claims experience will tell whether the reduction was justified.

Country expansion

OPIC has extended the insurance program to additional developing countries to spread its political risks over a broader base. Two inhibiting factors, which OPIC has particularly tried to overcome, are (1) the need for bilateral agreements with host country governments and (2) the limited investment opportunities in less developed countries.

OPIC has had some recent success in concluding bilateral investment incentive agreements and since December 1972 has signed agreements with Yemen, Yugolslavia, and Romania. Conversely, negotiations with Mexico, Saudi Arabia, and Bangladesh have not been successful.

For less developed countries, infrastructure projects offer the greatest opportunity for investment, and OPIC has developed a new form of insurance for U.S. overseas construction contractors. The insurance contract provides compensation for construction equipment, plant, and materials damaged by war, revolution, or insurrection; expropriation of tangible assets and certain bank accounts maintained in the host country; and nonpayment of settlements awarded under contract dispute procedures.

Conclusions

In consonance with its legislative mandate, OPIC has made considerable progress in sharing its financial risk, although it still retains the primary risk for catastrophic losses. Reinsurance contracts have been negotiated, and OPIC has accepted and expanded the use of coinsurance as a risk management practice. Private U.S. companies have participated in the financial risks on a limited basis.

CONTRACTUAL CHANGES

Loan investment

One of OPIC's major projects after commencing operations was revision of the standard contract for loan investments. The revised contract, completed in December 1972, incorporated several risk management changes, which significantly altered the nature and degree of coverage.

The revision of greatest significance made the insurance applicable to each installment payment rather than to the outstanding principal of the loan. This change will permit OPIC to pay claims over an extended period of time rather than in one large settlement. In addition, the revision will increase OPIC's fee income because the insured is required to maintain the policy over the entire loan period rather than terminating it when a claim is filed.

A second significant revision is the inclusion of a first-loss deductible clause for intracompany loans, which makes the investor self-insured for the first 15 percent of any claim. This coinsurance feature gives the investor an uninsured financial stake in the investment.

The revised contract also changed the basis for determining war losses and required the investor to prove that a loss was directly caused by the political risk involved. Previous contracts provided for determining war losses based on actual physical damage, while the new contract covers only losses where nonpayment can be directly attributed to war, revolution, or insurrection. Under the new contract OPIC may avoid claim payments in some situations--if the project sustains physical damage but has adequate monetary assets to honor the loan--but may be obligated to make claim payments for situations that were not covered under the old contract--if the project does not incur physical damage but its operations are severely disrupted by events of the war, revolution, or insurrection resulting in loan defaults.

The new contract contains a clause that establishes a presumptive allocation to insured and uninsured investments of any compensation paid by a foreign government in settlement of expropriations. The clause states that any payments designated as compensation for insured investments shall be accepted as such; while any payments designated as applying to uninsured investment only and payments carrying no designation shall be assumed to apply proportionately to the insured and uninsured investments expropriated. OPIC considers this clause reasonable because the foreign government, under its bilateral agreement with OPIC, may want to provide compensation for the insured portion of the loan. A designation of compensation for only the uninsured investment may indicate that the lender negotiated with the foreign government to protect only the uninsured portion of the investment.

Other contractual changes

Insurance contracts issued before 1970 included some provisions that were highly unfavorable to the insurance program's risk management. With enactment of the OPIC authorizing legislation in December 1969, program officials began a series of contract changes to reduce risks and improve the program's financial base. However, these changes could not be applied retroactively to existing contracts; therefore, a large amount of insurance will operate under the former policies for many years. As of August 31, 1972, the pre-1970 contracts represented $6.6 billion, or about 67 percent of all outstanding insurance. The major contractual changes are discussed below.

Avoidance of adverse selection

The old contracts permitted the investor to shift coverage annually between current and standby status. The standby coverage did not protect the investor against loss but did offer a much lower premium (1/10 of one percent per coverage compared with 1/2 of one percent for expropriation and war risk coverage) and preserved the investor's right to elect current coverage on the contract anniversary. Therefore, investors could substantially reduce their insurance costs by carrying most of their coverage on standby and still protect their investments by converting to current status if the political situation became threatening.

During 1970 the insurance contract was revised to require the investor to carry current expropriation and war risk coverage equal to the lesser of the maximum insured amount or the amount of net investment actually at risk at the beginning of each contract period. The revised contract did not include a minimum amount for inconvertibility coverage. The cash flow of a business, and thus the amount of incovertibility insurance needed, is subject to great fluctuation. The investor is responsible for selecting an amount of current incovertibility coverage which will protect his maximum exposure to this risk

Adopting minimum current coverage requirements should help to maximize OPIC's fee income in relation to risks and to avoid disputes with investors. For example, the claim of Anaconda currently in arbitration involves in part a dispute concerning its attempt to convert standby to current coverage only after the event that may be held to be the expropriatory action.

Maximum loss limitation

In most countries covered by the insurance program, OPIC offers coverage for inconvertibility, expropriation, and war risk. Investors usually elect to carry all three coverages. The coverages may be included on a single contract for an entire project, or separate contracts may be written for each coverage on each portion of an investment (equity, loan, and royalties). In contracts written before 1970, investors could, theoretically, collect the total of all three coverages over the life of the contracts; therefore, the sum of all contracts was considered to be the maximum contingent liability. However, the possibility of an investor collecting on all three coverages depended upon a series of remotely possible events, so that the maximum realistic exposure was much less than the sum of all coverages.

In 1970 the standard insurance contract was revised to incorporate a clause limiting an investor's maximum claim recovery to the lesser of net investment or the amount of the highest single coverage. This clause will prevent investors from recovering more than their net investment on all contracts issued on the new contract form dated December 1970.

Revised insurance fee rates

In March 1971, OPIC increased the annual insurance fee rates by 20 percent for current coverage and 150 percent for standby coverage and stopped discounting combined expropriation and war risk coverage. However, the increased rates could only be applied to new contracts and to the relatively small number of contracts issued before March 1966. Most of the portfolio--about $8 billion of total coverage--was included in contracts written between March 1966 and March 1971 and had fixed insurance fee rates, generally for a 20-year term. Therefore, it will be many years before the insurance program receives full benefit from the fee increase.

In December 1972, OPIC instituted multiple fee rates for current expropriation insurance coverage, which were intended to recognize degrees of risk among insured investments. The revised rates were based on an OPIC staff study concluding that

--institutional debt investments tend to be less susceptible to uncompensated expropriation,

--sensitive industry projects tend to be more risky than manufacturing enterprises, and

--large investments pose a greater threat to the viability of the insurance reserve.

The multiple-rate structure provides for annual current expropriation coverage fees.

	Debt	Equity
Large and/or sensitive projects	0.6%	0.8%
Other projects	0.4%	0.6%

These rates may be increased up to 0.2 percent when other risk-increasing factors, such as industry concentration within a country, are present. They may be reduced by up to 0.2 percent when other risk-reducing factors are present, such as an investor-host government arbitration agreement, multinational or local investor participation, preexisting uninsured investment, or a host government payment guarantee.

Thus, the rates for current expropriation coverage on newly insured investments can range from 0.2 percent to 1 percent. The rates for current inconvertibility and war risk coverage remain at 0.3 percent and 0.6 percent respectively. The study report that recommended the multiple-rate structure noted that OPIC still had only limited claims experience for risk assessment and that OPIC would periodically review premium rates for the various political risks.

Conclusions

The new loan contract and the other contractual changes should significantly reduce OPIC's risks. Some of these changes are comparatively recent, and OPIC has not had sufficient experience to determine how acceptable the changes will be to investors.

ASSESSMENT OF POLITICAL RISK

OPIC receives and analyzes various reports, correspondence, and evaluations of economic and political conditions in program countries. This information is received from various government, commercial, and news sources, and OPIC monitors and evaluates this information to assess the political risk in project countries. OPIC formalizes this assessment only for countries where current or impending political problems could affect OPIC programs.

OPIC assessments of political risk are the basis for decisions to suspend or terminate the insurance program in some countries. In most cases, however, OPIC follows the lead of the State Department, suspending or terminating operations in connection with a general foreign assistance cutoff or termination of diplomatic relations. Such action prevents issuing of new insurance but does not affect existing contracts.

Periodically OPIC prepares a report identifying countries where the program is officially suspended; the December 1972 report identified Bolivia, Chile, Peru, and a fourth country. Suspensions for Bolivia, Chile, and Peru were due to instances of expropriation without compensation. Bolivia subsequently settled an expropriation claim and the program was reinstated. The suspension in the fourth country was due to widespread political actions adverse to foreign interests and general political instability.

From time to time OPIC unofficially suspends the program, in whole or in part, in countries where circumstances indicate particular problems with, or general hostility toward, foreign investments. The countries are identified in the periodic reports but are not disclosed to the public or to potential investors as such disclosure might aggravate the problems. OPIC may continue to accept applications for investment registration but would not issue new insurance contracts. In many of these cases the investment climate in the country has become so hostile that investors are not interested.

In December 1972, OPIC identified 12 countries in which the program was semioperative or restricted, for reasons including

--legal questions regarding OPIC subrogation rights,

--suspension of currency convertibility rights for foreign investors,

--enactment of foreign investment laws including unreasonable divestiture provisions,

--delay in ratifying bilateral agreements,

--request by congressional committee (Indochina), and

--exceptional concentration of OPIC insurance coverage.

In assessing the political risk in program countries, OPIC does not regard the existence of actual or potential claims as a compelling reason to suspend the program. Such claims may prove to be invalid or may be resolved through negotiations. OPIC recognizes that governments may have legitimate reasons for expropriating foreign investments and considers such action adverse only if the government does not provide reasonable compensation. OPIC believes that suspension based on the emergence of a potential claim could cause further adverse actions by the host government, thus jeopardizing other insured investments.

Response to questions of the Subcommittee applicable to Brazil, Thailand, and the Dominican Republic follow.

Brazil

As of December 31, 1972, OPIC had 74 active insurance contracts in Brazil. All were issued after September 1965, when the bilateral agreement for the insurance program became effective.

Coverage	Inconvertibility	Expropriation	War risk
	(millions)		
Current	$ 50.7	$138.5	$126.3
Standby	225.7	114.8	89.4
Total	$276.4	$253.3	$215.7
Percent of worldwide coverage	8.8	7.4	7.7

OPIC generally does not prepare a formal risk assessment report for countries where the program is very active because concerned officials maintain a thorough knowledge of country conditions. Because Brazil is one of the most active countries, OPIC does not make a formal assessment of risk. However, a monitoring file is maintained which includes reports from the American Embassy, the State Department country desk, and other sources. The consensus of recent reports on Brazil indicates a very favorable investment climate, a prospering economy, and a very stable political situation.

Thailand and the Dominican Republic

OPIC insurance in these countries is summarized below.

	Inconvertibility	Expropriation	War risk
	(millions)		
Thailand			
Current	$ 6.6	$ 27.9	$ 30.9
Standby	39.5	15.2	9.4
Total	$ 46.1	$ 43.1	$ 40.3
Percent of worldwide	1.5	1.2	1.4
Dominican Republic			
Current	$193.5	$205.7	$200.3
Standby	19.5	10.7	8.4
Total	$213.0	$216.4	$208.7
Percent of worldwide	6.8	6.3	7.5

OPIC has specifically monitored these countries and has prepared periodic reports because of past and present potential problems. An October 1972 report for Thailand, however, noted that the potential problems had been resolved and concluded that special monitoring was no longer required. An October 1972 report for the Dominican Republic noted OPIC's high exposure and concluded that OPIC should continue special monitoring.

The reports did not indicate that the failure of projects in these countries had any effect on U.S. relations with the two governments.

Conclusions

The OPIC monitoring system appears to provide adequate access to the most current and complete information available for assessing political risk. Thus, OPIC has a reasonable basis for decisions to suspend or terminate insurance programs, as it deems appropriate. However, due to the long-term, noncancelable nature of OPIC insurance contracts, the risk assessment system can only prevent acquisition of incremental liability in a high-risk situation and existing contracts remain vulnerable.

CHAPTER 4

MONITORING PROJECT RESULTS

OPIC monitors the results of project operations on U.S. interests, host country development, and continued compliance with selected statutory and policy requirements through information obtained from day-to-day operations and through field visits by OPIC officials. Monitoring efforts concerned with assessment of political risk were discussed on pages 31 to 34.

OPIC also gets involved with specific projects in connection with potential claims situations. Its general approach is to discuss alternative solutions with responsible officials and to encourage or arrange high-level meetings between investor, host country government, and U.S. Government officials, including those from OPIC and the State Department.

PROJECT REVIEWS

As of March 31, 1973, OPIC had made only 36 visits to projects to obtain information on the insured projects' effects on U.S. interests, its developmental effect on host countries, and its continued compliance with statutory and policy requirements.

Countries, Number of Projects, and Insurance Coverage

	Project reviews	
Country	Number	Insurance coverage when inspected (note a)
Dominican Republic	3	$383,205,850
Costa Rica	2	12,206,000
Nicaragua	1	3,368,220
Honduras	3	5,068,000
Ghana	3	32,854,216
Liberia	3	13,390,194
Tunisia	4	6,133,000
Sierra Leone	3	2,564,783
Greece	4	5,199,000
Iran	4	4,804,463
Israel	4	12,028,440
Turkey	2	10,187,000
Total	36	$491,009,166

[a]Total project coverage for inconvertibility, expropriation, and war risk.

Because countries in the Far East and countries with major insurance concentrations were not included, reviews were not representative of OPIC's current portfolio. The trip reports contain some information regarding the projects' effects on the following matters:

	Number of projects	
	Reporting applicable (note a)	Information reported
U.S. interests:		
Exports to the U.S.	29	16
Displacement of U.S. trade	27	9
Procurement from developed countries	28	21
Host country development:		
Foreign exchange savings	34	31
Local national employment and skill creation (note b)	36	36
Taxes, customs, payroll for local employees	34	33
Tariff protection or other concessions (note c)	35	29
Local capital participation in project	36	31
Comparison with prices of imports and local products (note d)	32	17
Economic benefits to local suppliers, creation of new industry (note e)	36	30
Selected statutory and policy requirements:		
Limitation on foreign government ownership	36	32
Restriction on production of munitions or armaments	7	2
Restriction on hotels with gambling	2	0
Restriction on exports of textiles or certain foods to the United States	7	0
Restriction on entertainment facilities, such as sports stadiums, amusement parks, and golf courses	0	0

[a]Reporting is considered applicable unless information in report shows that item is not relevant to applicant's project.

[b]Although employment data was reported for all projects visited, the nature of the employment, i.e., skilled, unskilled, management, labor, etc., was not broken down for 15 projects.

[c]To encourage new industry, most host governments grant concessions on taxes, tariff duties, etc. For one project converting imported bauxite into aluminum, the host government granted a 10-year moratorium on taxes plus duty-free imports and exports. For another project manufacturing dry cell batteries, the host government granted a 5-year tax moratorium and restricted all imports of competitive products for 5 years.

[d]For projects on which pricing was reported, there was usually no specific comparison of the prices of the insured enterprises' products with competitive products.

[e]Although precise quantities or dollar amounts were not generally available, the reports illustrate the contributions of the projects to local suppliers and new industry.

The reports in many instances did not disclose effects on U.S. interests. Information on exports to the United States and displacement of U.S. trade generally was lacking. Coverage of the developmental effects on the host country was more complete, but the quality of the reporting needs to be improved.

Adverse disclosures through OPIC project reviews

The project reports noted several instances where project operations appeared to conflict with current policies, as discussed below. Under applicable contractual terms, OPIC would find it difficult to cancel the insurance coverage, but such information may serve to help strengthen future eligibility requirements.

1. Monopolies and government restrictive trade practices

OPIC policies tolerate monopolies and host government restrictive trade practices for a limited period--e.g., 5 to 8 years, because they are often an established way of doing business in developing countries. However, the continuation of these practices beyond this period is undesirable. Monitoring reports showed several instances when these practices were to be extended beyond the intended period.

2. Production for military purposes

Projects producing military items or producing common-use items solely for military purposes are ineligible. Projects producing common-use items for civilian and military end use are eligible if military sales do not exceed 50 percent of total sales for any 1 year. When military sales exceed 50 percent of total sales for 1 year, OPIC's liability will be limited to the proportion of civilian to total sales.

An OPIC official reported for one project that:

> "* * * clearly, the principal customer of the Foreign Enterprise is the Government and the principal orientation military. The project would not be insurable under our existing policy * * *."

The investor's application did not indicate that any of the production would be used for military purposes.

3. Foreign government ownership

If the host government owns more than 50 percent of a project, insurance will be provided only when future participation by private enterprise has been arranged. For the 36 projects, host governments owned from 25 to 75 percent of 6 of them and 2 of these had government participation of 50 percent and above. AID knew of these cases before insurance agreements were finalized.

4. Procurement from developed countries

OPIC generally denies insurance coverage to projects that plan to procure substantially from developed third countries, such as Japan and most European countries. OPIC will approve third-country procurement when justified by overall developmental impact. In evaluating this factor, OPIC relies on procurement data on the insurance application. However, prices, markets, and other variables anticipated at the time of the insurance application may not materialize. An OPIC official involved in project monitoring reported:

> "U.S. overseas investors do not necessarily buy from the U.S. Price is the determinant, and buying patterns change quickly depending on price. Rich, third country procurement is everywhere in evidence in the equipment and machinery * * *."

Analysis of data in the reports shows a substantial amount of the procurement from developed third countries. For 17 projects on which procurement data was available, 6 reported procurement from the United States only, 4 from rich, third-country sources only, and 7 from both sources. The value of procurement from developed countries was $16.1 million compared with approximately $10.5 million from the United States. For the four projects that reported procurement from developed countries, the investors' applications did not contain any data concerning the source and amount of anticipated procurement.

Specific data on the amount of local procurement for each project was not available. However, local procurement was expected to be minimal for most projects because of the shortage and the inferior quality of local resources. Because of exports generated and imports replaced, foreign exchange for the host countries was very favorable, with foreign exchange savings of $235.9 million compared with additional import costs of $9.1 million.

ADDITIONAL MONITORING EFFORTS BEING IMPLEMENTED

OPIC approved plans in April 1973 to increase and coordinate its monitoring efforts. These plans provide for visiting designated large or sensitive projects about once every 18 months. No provision is made for a representative selection of other projects. Our review of the questionnaire to be used on project visits indicates that OPIC may obtain relevant information on the project's effects on U.S. interests, host country development, and applicable statutory and policy requirements.

CONCLUSIONS

OPIC has recognized the need to expand its monitoring efforts for insured projects and is giving additional periodic attention to large and sensitive projects. If these project reviews disclose a pattern of results not in accord with OPIC objectives, the reviews should be extended to provide some coverage of smaller projects. Any evidence that investors' insurance applications contained substantial misrepresentations would need to be analyzed to determine whether termination of the insurance coverage was warranted.

CHAPTER 5

CLAIMS SETTLEMENTS

LIMITATIONS ON GAO ACCESS TO INFORMATION FOR PENDING CLAIMS

In order not to jeopardize administrative due process in the resolution of OPIC's pending claims, GAO was not permitted direct access to the files of open claims and those in which arbitration was pending. It did provide formal correspondence between OPIC and claimants for such cases to the extent that it did not disclose OPIC's negotiating position. Information on the compliance with specific contract provisions or the strengths and weaknesses of the Government's position in pending and open claims was not released. In November 1972 we informed the Subcommittee staff that we would not be able to respond to questions in the request from the Chairman on these claims, which include the claim of International Telephone and Telegraph for its properties in Chile.

REVIEW OF CLAIMS SETTLEMENTS

Most of the claims are of recent origin; AID had paid only 10 claims totaling $3.8 million from 1961 to January 1971. OPIC has paid $19.4 million on 14 claims, as shown in appendix III. Appendix IV presents summary statistics on claims filed and probable and possible claims.

Our findings concerning selected aspects of OPIC settlements of expropriation, war risk, and inconvertibility claims follow. From the limited number of claim settlements available for our review, we were unable to make any overall conclusions on the general adequacy of procedures, guidelines, and criteria used by OPIC in evaluating claims presented by companies.

Expropriation claims

Our review concentrated on the primary contractual decisions OPIC makes for expropriation claims: (1) whether an expropriatory action took place and (2) the amount of compensation due.

Determinations of expropriatory actions

The Foreign Assistance Act of 1961, as amended, and OPIC's clarifying contractual provisions define expropriation in general terms. For some claims the expropriatory action was relatively easy to determine because it was based on such clearly defined actions as a decree of the host government. In the cases discussed below, OPIC had to consider more complex issues, and in one case the claimant did not concur in OPIC's decision.

- --OPIC denied a claim and was upheld in arbitration on the basis that the actions taken by the host government were not for the purpose of nationalization, confiscation, or expropriation. In this case a lumber mill had to stop operations on several occasions because of the host government actions to protect the national forests. The arbitrators found that these actions were reasonably related to constitutionally sanctioned objectives, were not arbitrary, and did not violate generally accepted international law principles.

- --An issue concerned whether expropriation of a claimant's uninsured equity investment constituted expropriatory action on an insured loan. OPIC took the position that expropriation of a debt investment did not occur until there was a default on a scheduled repayment and adopted this concept as a standard term for new loan contracts.

- --An expropriatory action was based on a series of events involving the severance of diplomatic relations between the United States and the host government. The investor was forced to leave the country, and the host government refused to pay existing vouchers for work performed. OPIC, after a long delay and disagreement by AID, agreed with the claimant that these events constituted an expropriatory action.

- --The claimant was forced to suspend operations because he was unable to sell his product. This resulted from a disruption of the housing industry attributable to unsettled conditions in the host country. Under the laws of the host country, the firms' shutdown and resultant layoff of workers constituted the basis for expropriatory action. OPIC agreed that an expropriatory action had occurred, because application of this labor law was clearly unreasonable.

Determinations of amounts of compensation due

Unlike loan investments in which OPIC liability may be easily determinable, the equity investor's claim normally is based on capital contributions adjusted to reflect his proportionate share of earnings and losses and any return of capital--referred to as net investment. The compensation paid, however, may not be greater than the current insured amount in force on the date of expropriation and will be reduced by any compensation realized from other sources.

The contract provides that investment earnings be determined in accordance with accounting principles generally accepted in the United States and consistently applied. OPIC has a contract with a public accounting firm to assist it in making these determinations.

OPIC has been unable to obtain independent opinions on some claims we reviewed, because the books and records of the insured foreign enterprises were not available. This problem was especially significant in a claim for which OPIC included a $640,000 payment of retained earnings on the basis of an unaudited trial balance. This trial balance was handwritten in Spanish, and the foreign enterprise official who prepared it was unavailable to OPIC's public accountants. The $640,000 reportedly covered the claimant's share of earnings from January 1, 1971, to expropriation of its mine on July 16, 1971.

During the claim-processing period, the claimant represented to OPIC that the trial balance was the only evidence available and that he did not have access to the present books and records of the mining company or to audited financial statements covering any part of 1971.

Although OPIC's public accountant refused to express an opinion on the amount of claimed income because "sufficient competent evidential matter" was not available, OPIC conditionally accepted the $640,000 figure.

The OPIC settlement agreement executed on September 20, 1972, provided that, until November 1972, OPIC and the claimant would try to secure better evidence concerning the earnings. OPIC transmitted a letter through the State Department requesting a Government of Chile agency to obtain the needed earnings data.

OPIC received no reply and no new evidence became available during the 41-day interim settlement period; thus, the settlement became final on November 1, 1972.

Inconvertibility claims

For claims concerning the inability to convert foreign currencies OPIC requires that

--currency must be free and clear and must represent investment earnings or return of capital,

--investor must not have held currency for more than 18 months,

--investor must have taken reasonable steps to exchange the currency in the host country and other markets in accordance with contract provisions, and

--the exchange would have been eligible under the laws in effect at the date the insurance contract was signed.

As of March 31, 1973, OPIC had paid six claims totaling $1.1 million and had recovered all but $55,000 through conversions of the foreign currency by the Treasury Department. Our review of three of these claims shows that information in the files reasonably supported the settlement determinations.

Through an informal arrangement with the Treasury Department, the foreign currencies obtained by OPIC are converted to U.S. dollars. The Treasury pays OPIC the dollar value based on the official exchange rate on the date Treasury uses the foreign currencies.

To reduce the risk of loss through devaluation of foreign currencies, OPIC now requires that claims be accompanied by a check for the foreign currencies involved. OPIC immediately transfers the funds to Treasury. OPIC officials advised us they have tried to simplify the adjudicative process by relaxing verification requirements in certain cases.

There have not been any claims involving currencies which the United States has in excess. Because the Treasury would have no use for such funds indefinitely, OPIC would apparently incur the loss. OPIC may incur substantial losses when countries, for political or economic reasons, delay or prohibit the use of such currencies for U.S. purposes.

Conclusion

OPIC has tried to avoid loss through devaluation of foreign currencies. Any losses incurred in the handling of foreign currencies not chargeable to the claimant apparently will be borne by OPIC.

War risk claims

OPIC, as of March 31, 1973, had settled only two war risk claims, totaling $31,353. One of the claims resulted from damages to an auto-leasing company in the Dominican Republic, and the other covered a fertilizer plant in Pakistan damaged in an aerial attack during the India-Pakistan conflict. An additional payment of $413,662 was made to a construction contractor for war damages in Bangladesh. OPIC is negotiating to recover part of this payment due to recovery of equipment. The files for this claim were not made available for our review because OPIC considered the claim still in process.

The recent revision of the standard contract for debt investments significantly changes the basis for determining war losses and modifies the extent of OPIC risk. (See p. 27.)

One claimant, in response to our questionnaire, criticized the war damage compensation formula covering his equity contribution. The contract for insurance of equity contribution has not been revised to change the basis for determining war losses.

VIEWS OF CLAIMANTS ON OPIC's HANDLING OF CLAIMS

We mailed questionnaires to 21 investors to obtain their views on OPIC's handling of their claims. Fourteen of the replies were responsive and the disposition of these claims follows:

	Questionnaires	
	Mailed	Responsive replies
Settlement by OPIC	15	11
Claims withdrawn or arbitrated	6	3
Total	21	14

The responses are summarized below by subject matter.

	Number
1. Contract terms:	
Adequately defined claimants responsibilities	12
Unsatisfactory	2
2. OPIC and/or Department of State dealings with foreign government were:	
A help	7
A neutral factor	5
A hindrance	0
Not applicable	2
3. OPIC's request for information to support claim was:	
Reasonable	12
Not reasonable	1
Some objection	1
4. Time OPIC took to process claim was:	
Reasonable	12
Too long	2
5. Outside legal counsel in presentation of claim:	
Was used	5
Not used	9
6. Considering experience insured had with claim:	
Would again purchase OPIC insurance for the same kind of risk	11
Would not again purchase OPIC insurance	1
Uncertain	2

Negative comments included:

--An objection to U.S. officials' confirming with host country central bank certain allegations made to OPIC.

--A statement that:

1. Contract terms protect the insurer and not the insured.

2. OPIC's request for information to support claim and its conduct were not only unreasonable but also unethical.

3. One claim was so simple that it should have been resolved in 3 or 4 weeks, not 3 or 4 years.

--Greater clarity in the contract terms on responsibilities in processing claim would have been helpful.

--Most OPIC requests for supporting information were reasonable, but some were not, such as a request for an English translation of all tax laws and regulations of the foreign country involved.

--The relatively high cost of the insurance provided the strongest argument against purchasing OPIC insurance. Negotiating the terms of the insurance contract was difficult and complex.

--The formula for compensation for war damage does not compensate the insured party for his equity share of the damage but for his share of the damage according to the ratio of his equity to total equity plus long-term debt. Under this formula compensation amounted to much less than the annual premium, which leads to questioning the value of OPIC insurance in a project with a large long-term debt.

We conclude from the responses that the claimants were generally satisfied with OPIC's handling of their claims.

SETTLEMENTS INVOLVING OPIC GUARANTEES

As of March 31, 1973, OPIC supported four settlements with guarantees of $101 million, excluding interest. (See app. III.) Our observations on the terms of the largest settlement follow.

OPIC negotiated a settlement with Braden Copper Company, a wholly owned subsidiary of Kennecott Copper Corporation, that enabled OPIC to avoid making a lump-sum cash settlement on Braden's claim. Braden's insured investment consisted of 5-3/4-percent promissory notes issued by Sociedad Minera El Teniente and guaranteed by the Government of Chile. The notes had a face value of $74.7 million in December 1972 and were due in equal semiannual installments of principal through 1986.

Under the settlement agreement:

--OPIC established a trust fund to acquire and sell participation rights in the promissory notes.

--OPIC guaranteed payments of principal and interest due on the participation rights through January 31, 1978, and agreed to pay the balance due at that date in exchange for the notes.

--OPIC agreed to protect both Braden and the trustee from claims by the Export-Import Bank of the United States arising from a subordination agreement attaching to the notes.

--Braden agreed to sell the notes to the trust for $67 million and to consider such payment as full settlement of its claim.

--The trust sold 5-year 6-3/4-percent participation rights in the principal amount of $67 million and paid $66.9 million to Braden.

El Teniente and the Government of Chile defaulted on the December 31, 1972, installment of $4.8 million; consequently OPIC was required to make the payment. If all installments due through the life of the trust are defaulted, OPIC will be liable for payments of $48.7 million on the notes--$29.3 million in principal and $19.4 million in interest. In addition OPIC will be required to make a final payment of $36 million in 1978 to pay off the balance of participating rights then due. In return, OPIC will receive sole interest in all defaulted installments and the remaining promissory notes due over the following 7-1/2 years.

To protect Braden and the trust as provided in the settlement agreement, OPIC agreed to pay the Export-Import Bank amounts due under the subordination agreement.

The agreement provides that OPIC pay to the Export-Import Bank principal and interest of $5.6 million between December 1972 and December 1974. In return, the bank will repay OPIC this amount plus interest at an annual rate of 6 percent to the extent it receives future payments on its loan to El Teniente.

Considering payments to the trust participants and the Export-Import Bank, OPIC could pay a maximum of $90,315,958.

Principal and interest to the trust	$84,681,032
Principal and interest to Export-Import Bank	5,553,926
Broker's fee (First Boston Corporation)	81,000
Total	$90,315,958

Under the terms of the trust, OPIC can redeem participation certificates on any installment date. If OPIC made a lump-sum settlement to the trust on August 31, 1973, the costs of the settlement as of that date would be:

To the trust participants:		
Principal	$67,000,000	
Interest through 8-1-73	2,634,212	
		$69,634,212
To the Export-Import Bank:		
Principal	$ 4,985,571	
Interest through 12-20-74	568,355	
		5,553,926
Broker's fee (First Boston Corporation)		81,000
Total		$75,269,138

Thus, by making a lump-sum settlement to the trust, the saving would be about $15 million. The funds for settlement would have to come from OPIC reserves, which would reduce OPIC's liquidity position as well as earnings on its invested reserves. The $15 million saving through the lump-sum settlement would be offset by the loss of an estimated $12.5 million interest OPIC could earn on the reserve funds required to make the settlement. This estimate is based on two assumptions: (1) that Chile will make no payments on the notes and (2) OPIC payments to the trust will be made from reserves eligible for investment in U.S. securities.

The arrangement for this settlement was apparently strongly motivated by OPIC's desire to avoid substantial depletion in its limited reserve funds. If OPIC pays the the full $90.3 million over the 5-year period, 60 percent of the annual fees, on the basis of current collections, will be required.

CHAPTER 6

INSURANCE FOR PROJECTS THAT EXPORT PRIMARILY TO THE UNITED STATES

OPIC insurance coverage for investments in the electronic[1] industry included a high percentage of projects that primarily exported to the United States. Other industry areas appeared to include a smaller percentage of projects which primarily export to the United States.

POLICIES

Policy guidelines provide that, although insurance may be issued covering investments in foreign enterprises that plan to export their products to the United States, an investment in a runaway industry will not be eligible unless there are counterbalancing advantages to the United States. A runaway industry is defined as one which is established outside the United States in complete or partial replacement of a going concern in the United States, for the purpose of exporting substantially the same products to about the same markets. After consideration of the economic factors, including trade and labor, such an investment may be considered to be in the best interests of the United States. In case of partial replacement of a U.S. production facility, OPIC assistance may be given only if it is determined that such a move is reasonably calculated to preserve the remaining U.S. employment by aiding the enterprise in maintaining a competitive position in the market. In neither instance will OPIC assistance be given if an unfair labor practice charge based on the shutdown is either pending or has been resolved against the company.

In March 1972, OPIC initiated new and more stringent procedures to determine the effects of OPIC-assisted investments on the economy. Insurance officers are now required

---

[1]Includes consumer electronic products, e.g., television receivers, radio receivers, and phonographs, and electronic components and devices, e.g., electronic tubes, lasers, and semiconductors.

to obtain more detailed information on U.S. trade effects and U.S. financial flows for projects involving (1) more than a $10 million investment, (2) exports to the United States of 20 percent or more of their production, or (3) a business operation which could be considered sensitive. The insurance officer is to analyze this information in terms of effect on U.S. employment and balance of payments.

OPIC also initiated a procedure whereby the applicant must certify a statement prepared by OPIC that it is not a runaway industry. This statement is made a material representation affecting eligibility for insurance coverage. This certification may have limited application in claims situations since it is based on information available to the applicant at the time the certification was submitted. The investor could not be held for changes in plant operations based on economic changes that subsequently occur even though such changes adversely affect U.S. interests.

OPIC established limitations affecting eligibility of textiles and certain agricultural products. Projects involving the export of textile products to the United States in an amount greater than 5 percent of its production are ineligible for coverage. Projects involving agricultural production are eligible for OPIC assistance only if 80 percent of food crops and 90 percent of feed crops are destined for host country consumption. Also agricultural projects involving production for export to third-country markets are subject to consideration by several U.S. agencies.

OPIC's concern with runaway industries and the U.S. economic effects of overseas investments, has led it to reject a number of applications for assistance. For example:

1. Construction of a cement plant in a Central American country to produce substantially for the Southeastern U.S. market.

2. Manufacture of radios in Singapore to obtain a share of the U.S. market formerly served by a U.S. plant, which had closed because costs were uncompetitive with imports.

3. Publication of an encyclopedia in Israel for sale in the United States.

4. Shipment of a closed plant to Yugoslavia to manufacture circuitry for European and, probably, U.S. markets.

5. Production of children's clothing in several Central and South American countries, partially to serve the U.S. market.

6. Manufacture of labor-intensive parts of shoes in Taiwan or Brazil, for ultimate sale in the United States.

GAO REVIEW OF APPLICATIONS

We reviewed 34 insurance applications for electronic projects for which OPIC issued contracts through March 1972. OPIC's portfolio has about 101 electronic projects (including 64 approved by AID) as of March 31, 1973, with a total insurance coverage of about $817.2 million. Most of the electronic projects reviewed anticipated a substantial amount of exports to the United States.

Information in the files did not disclose the amount of exports to the United States for 7 of the 34 electronic firms. The percentage of anticipated production for the remaining 27 projects follows.

Percentage of exports to United States	Number of firms
100	14
80-99	5
50-79	0
20-49	2
under 20	6
	27

Data submitted by 18 applicants with an indicated high percentage of exports to the United States shows that the dollar outflow from the United States is about 4 times greater than the combined total of annual procurement from the United States plus annual dollar returns to the United States (principal and interest repayments, dividends, royalties, etc.). This loss may, to some extent, be offset by the developing countries' use of the dollars for incremental import of commodities from the United States. A summary by country of data submitted by the applicants follows.

Country	No. of firms submitting data	Estimated annual: Exports to United States	U.S. procurement	Returns to United States	Dollar outflow
Republic of China	8	$ 83,330,000	$15,649,000	$6,420,000	$ 61,261,000
Israel	2	100,000	50,000	1,200	48,800
Singapore	8	54,933,000	5,918,600	431,000	48,583,400
Total	18	$138,363,000	$21,617,600	$6,852,200	$109,893,200

The large difference between the value of exports to and procurements from the United States indicates, in our opinion, that the bulk of the labor and material components were foreign source.

The information submitted by the applicant indicated the U.S. balance-of-payments position was adversely affected but the effect on employment opportunities for Americans was unclear. We found that OPIC primarily relied on vague certifications that projects were not adversely affecting U.S. employment.

We also found that the files did not disclose such relevant information as:

1. A precise description of the product manufactured at the overseas location and the extent of competition with U.S. production.

2. Views of officials of the cognizant unions.

3. Whether the plant could have operated in the United States at a smaller profit margin, assuming that investors locate plants overseas to maximize profits.

4. An analysis of the investor's past, present, and planned employment for domestic and foreign facilities in the project industry.

CONCLUSION

OPIC has given increased attention to the problem of insuring runaway industries. Although OPIC's files had little information on earlier cases, we believe that the more recent OPIC procedures, if properly implemented, should provide reasonable assurance that U.S. interests are protected.

United States Senate
COMMITTEE ON FOREIGN RELATIONS
WASHINGTON, D.C. 20510

September 21, 1972

Mr. Elmer B. Staats
Comptroller General
General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

Dear Mr. Staats:

The Senate Foreign Relations Committee's Subcommittee on Multinational Corporations is undertaking a major study on the role of United States multinational corporations and their relationship to U.S. foreign policy objectives. One aspect of this study relates to U.S. Government policies and legislation which encourage such companies to invest abroad.

The purpose of this letter is to request the General Accounting Office, in cooperation with the staff of the Subcommittee, to undertake a management type review of the Overseas Private Investment Corporation (OPIC) with particular reference to the following matters.

(1) Are OPIC's procedures adequate for establishing levels of exposure in particular countries and potential political risks both by country and industry? I am particularly interested in the adequacy of OPIC's analyses of political risk and level of exposure in Brazil.

(2) With respect to the Latin American region, what is the level of OPIC exposure by type of guarantee, country, and major industry categories? I should appreciate having specific information with respect to Brazil as to the amount of guarantees issued by OPIC and its predecessor agency AID in the period after April 1, 1964, compared to the period prior to that date.

(3) I should also appreciate your determining the general adequacy of procedures, guidelines and criteria used by OPIC in evaluating claims presented by companies under guarantee agreements administered by OPIC. I am particularly interested in the adequacy of OPIC's evaluation and handling of the claim presented by the International Telephone and Telegraph Company (ITT) for compensation for its Chilean telephone subsidiaries. Specifically,

(a) Did OPIC make a determination as to whether ITT "provoked" the Chilean Government within the meaning of the guarantee contracts so as to warrant the Chilean Government either terminating negotiations with respect to possible compensation or expropriating the properties of the ITT owned Chilean telephone subsidiaries? If such a determination was made, was it based upon a thorough investigation and substantiated by adequate factual determinations? In the course of negotiations with the Chilean Government, did the ITT invoke posssible U.S. Government involvement as subrogee of the claim as part of its bargaining with the Chilean Government and, if so, was this fact known to OPIC and, if so, what did OPIC do about it? To what extent did OPIC monitor the course of the negotiations and determine whether ITT was bargaining in good faith? Did ITT refuse to accept the offer of the Chilean Government for international arbitration of the amount of ITT's claim and, if so, was OPIC aware of this refusal and, if so, what did it do about it? In the case of ITT did OPIC or its predecessor agency AID guarantee reinvested earnings as part of the issuance of guarantees on new investments and, if so, was the decision to guarantee the reinvested earnings based upon an adequate factual determination that if such earnings were not guaranteed ITT would withdraw such earnings from Chile?

(b) To what extent beyond the ITT case has OPIC taken an active role in behalf of potential claimants in settling expropriation disputes with individual governments and, to what extent have U.S. Embassies and the State Department been drawn into negotiations?

(c) To what extent beyond the ITT case does OPIC guarantee reinvested earnings? If this is a general policy of OPIC, what is the rationale for the policy and how adequate are the procedures and analyses used in making specific determinations?

(4) What has OPIC's experience been with respect to the so-called extended risk program, particularly with respect to projects in the Dominican Republic and Thailand? Have significant political problems arisen with the host country governments as a consequence of possible failure of projects covered by the program? To what extent has the U.S. Embassy in the respective countries been drawn into the resolution of problems involving such investments?

Sincerely,

Frank Church
Chairman, Subcommittee on
Multinational Corporations

ELIGIBILITY REQUIREMENTS FOR
INSURANCE COVERAGE AND LOAN GUARANTEES

To qualify for investment insurance, a project must meet the following criteria.

1. The country must have bilaterally agreed with the United States to institute the investment insurance program.

2. The foreign government must approve the project.

3. The investor must be (a) a citizen of the United States, (b) a corporation, partnership, or other association created under the laws of the United States, or any State or territory, by U.S. citizens, or (c) a foreign business wholly owned by investors eligible under a or b.

4. The project must be a new investment or expand an existing investment. Before becoming committed to invest, the investor must receive a "registration letter" from OPIC.

5. The investment can be in the form of equity; loans; licensing of patents, processes, or techniques; technical or managerial assistance arrangements; construction contracts; long-term suppliers contracts; lender's contracts; branch operations; or branch banks.

6. The investment can be cash, reinvested retained earnings, materials or equipment, patents, processes and techniques, services, or loan guarantees.

7. Investments in less developed friendly countries should be responsive to the special needs and requirements and should contribute to the social and economic development.

8. Although it has no definite prohibitions, OPIC has considered the following types of projects ineligible for insurance coverage.

    a. Textiles and certain food industries for export to the United States.

b. Construction or operation of a munitions or armament factory.

c. Purchase and sale of real estate.

d. Hotels containing gambling operations.

e. Establishment and operation of a business producing alcoholic beverages.

f. Enterprises owned and controlled by the host government with no significant participation by private enterprises.

g. Speculation in commodities.

h. Facilities devoted to entertainment, such as sports stadiums, amusement parks, country clubs, and golf courses.

i. Runaway industries.

To be eligible for a loan guarantee, the applicant must meet the applicable aforementioned requirements. In addition, OPIC must be convinced that the project will be able to sustain profitable operations.

As a general policy, OPIC offers political risk insurance for reinvested earnings. Most insurance contracts initially provide standby insurance for future retained earnings in an amount equal to the initial insured investment. In addition, OPIC will insure projects financed by reinvested earnings on the same basis as projects financed by new investment; however, since 1971 OPIC has declined to offer standby insurance for retained earnings on reinvested earnings.

OPIC's principal reasons for providing standby insurance for future retained earnings include

--an additional incentive for the initial investment,

--a decrease in the incentive for the investor to repatriate earnings at a possibly exploitive rate, and

--an additional developmental value and a foreign exchange saving for the host government.

OPIC offers insurance contracts for projects financed by reinvested earnings on substantially the same basis as for projects financed by regular corporate funds, except that such contracts do not include coverage for future earnings. For example, the project must be a new project, must be registered with OPIC before investment begins, and must have specific foreign government approval. The project eligibility does differ, however, regarding criteria applicable to the retained earnings to be reinvested. The retained earnings must be eligible for conversion and repatriation to the United States, making them substantially equivalent to funds held by the investor in the United States. In addition, the reinvested earnings to be insured must have been accrued out of normal operations starting 2 years before the project commences and ending with the year of project completion.

The reinvested earnings must be formally capitalized. OPIC requires an accountant's certification supporting compliance with certain criteria.

We tried to obtain data to determine what portion of OPIC's total insurance coverage represented reinvested earnings. OPIC does not have the information base to disclose the amount of coverage represented by reinvested earnings.

OPIC CLAIM SETTLEMENTS

FOR JANUARY 19, 1971, THROUGH MARCH 31, 1973

CASH SETTLEMENTS

Type of claim and investor	Country	Amount paid	Amount recovered	Net loss
		———	(000 omitted)	———
Expropriation:				
The Anaconda Company-Chile Copper Company	Chile	$ 11,890	$ -	$11,890
Ralston Purina International	Chile	614	448	166
Walsh Construction Company	Sudan	222	-	222
Northern Indiana Brass Company, Inc.	Chile	110	-	110
Total		12,836	448	12,388
Inconvertibility:				
Ford Motor Company	Chile	911	880	31
Bank of America	Vietnam	55	52	3
Bank of America	Vietnam	32	32	-
International Chemical Fibers	Chile	29	-	29
Chase Manhattan Bank	Vietnam	26	34	[a]8
First Pennsylvania Bank	Philippines	16	16	-
Total		1,069	1,014	55
War damage:				
Vinnell Corporation	Bangladesh	414	-	414
Hercules Incorporated	Pakistan	18	-	18
Western Hemisphere Enterprise	Dominican Republic	13	-	13
Subtotal		445	-	445
Total		$ 14,350	$1,462	$12,888

SETTLEMENTS INVOLVING OPIC GUARANTEES

	Country	Guaranteed settlement amount	Status at Mar. 31, 1973: OPIC payments	Status at Mar. 31, 1973: Contingent liability
Investor:				
Kennecott Copper Corporation:				
Braden Copper Company	Chile	$ 67,000	$4,831	[b]$63,496
Export-Import Bank	Chile	4,986	249	[b] 4,815
Bethlehem Steel Corporation	Chile	17,365	-	[b] 18,230
U.S. Steel/Engelhard Minerals & Chemicals Corporation	Bolivia	8,000	-	8,000
Parsons & Whittemore	Chile	3,259	-	3,189
Total		$100,610	$5,080	$97,730

[a]Net gain.

[b]Amount includes accrued interest.

SUMMARY STATISTICS ON CLAIMS FILED AND OTHER PROBABLE AND POSSIBLE CLAIMS AS OF APRIL 10, 1973

Category and type of claim	Number of cases	Amount (millions)
Possible claims:		
Inconvertibility	2	$ 1.9
Expropriation	7	40.7
War damage	-	-
	9	42.6
Probable claims:		
Inconvertibility	3	1.2
Expropriation	5	50.4
War damage	-	-
	8	51.6
Claims filed:		
Inconvertibility	6	1.6
Expropriation	8	26.4
War damage	2	.8
	16	28.8
Claims pending arbitration:		
Inconvertibility	-	-
Expropriation	2	246.5
War damage	-	-
	2	246.5
Total	35	$369.5

PRINCIPAL OFFICIALS OF THE OVERSEAS PRIVATE INVESTMENT CORPORATION AT APRIL 30, 1973

Board members[a]	Position	Date of appointment
John A. Hannah	Chairman	1-19-71
Bradford Mills	Director	1-19-71
Willis C. Armstrong	do.	10-12-72
Stetson Coleman	do.	3-13-72
Allie C. Felder, Jr.	do.	1-19-71
Gustave M. Hauser	do.	1-19-71
Daniel Parker	do.	1-19-71
James A. Suffridge	do.	1-19-71
Paul Volcker	do.	1-19-71
Officers		
Bradford Mills	President and Chief Executive Officer	1-19-71
Herbert Salzman	Executive Vice President	1-19-71
Marshall T. Mays	General Counsel	3- 7-71
Joseph H. Price	Vice President for Insurance	7- 6-71
William A. Pistell	Vice President for Finance	3-19-73
Rutherford M. Poats	Vice President for Development	4- 1-71
Paul Muller	Treasurer	4- 9-73

[a]Two vacancies exist on the board as of April 30, 1973.

POSITIONS OF THE
OVERSEAS PRIVATE INVESTMENT CORPORATION
BOARD MEMBERS

Board members	Official title
John A. Hannah	Administrator, Agency for International Development
Bradford Mills	President and Chief Executive Officer, Overseas Private Investment Corporation
Willis C. Armstrong	Assistant Secretary of State for Economic Affairs
Stetson Coleman	Chairman, Meadows Pate Wholesale Drug Company
Dr. Allie C. Felder, Jr.	Director, Outreach Division, Cooperative League of the United States
Gustave M. Hauser	Executive Vice President, Western Union International
Daniel Parker	Chairman, Parker Pen Company
James Suffridge	President Emeritus, Retail Clerks International Association
Paul Volcker	Under Secretary of the Treasury for Monetary Affairs