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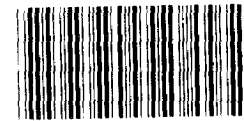
Report To The Chairman,
Foreign Relations Committee
United States Senate
OF THE UNITED STATES

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The Overseas Private Investment Corporation: Its Role In Development And Trade

The Overseas Private Investment Corporation (OPIC) has made progress since 1978 in diversifying its investment portfolio to include more of the poorer developing countries. OPIC, however, has only limited opportunities to enhance the developmental aspects of individual investment projects. One possible way for OPIC to do more would be to join with the International Development Cooperation Agency and the Agency for International Development to explore ways to increase the impact of the investments.



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OPIC can also improve its knowledge about the kinds of U.S. foreign investments which could have a positive impact on the U.S. economy if it (1) strengthens its analysis of U.S. employment through closer coordination with the Department of Labor and the labor unions and (2) is more selective in choosing investments to promote U.S. exports.

OPIC has increased U.S. small business participation since 1978 to meet congressional targets, but it needs to follow up more closely to keep track of progress and problems.



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The Honorable Charles H. Percy
Chairman, Foreign Relations Committee
United States Senate

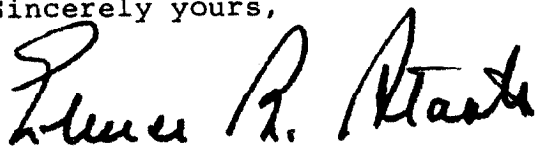
Dear Mr. Chairman:

This report on the Overseas Private Investment Corporation (OPIC), was undertaken in response to a March 19, 1980, request from the former Chairman of the Senate Foreign Relations Committee, Senator Frank Church.

The issues we were asked to look at concern the development impact of OPIC-supported investments, the effects of these investments on the U.S. economy, and the participation of small U.S. businesses in OPIC programs. The report makes a number of recommendations to strengthen OPIC programs.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of the report. At that time, we will send copies to interested parties and make copies available to others upon request. At the direction of the previous Chairman, we did not circulate the report for agency comment.

Sincerely yours,


Comptroller General
of the United States



D I G E S T

The Overseas Private Investment Corporation (OPIC) was created to mobilize and facilitate "the participation of United States private capital and skills in the economic and social development of less-developed friendly countries and areas, therefore complementing the development assistance objectives of the United States."

DEVELOPMENT PROGRESS

OPIC has made progress in diversifying its finance and insurance portfolios more toward the poorer developing countries and has adopted project screening criteria consistent with congressional guidelines. In case studies of a total of 30 investments in 6 countries, GAO found that host countries fully welcome these investments as contributing to their development needs. (See pp. 7-11.)

OPIC, however, has at best only limited opportunities to enhance the developmental aspects of individual investment projects or to be particularly selective in choosing investments to support. This limitation stems from several factors over which OPIC alone has little control--(1) limited ability to influence investor-initiated proposals; (2) a lack of investment proposals submitted by U.S. investors from which OPIC can select those fully meeting the congressional criteria; (3) the willingness of developing countries to accept foreign investments with minimal screening of development effects; and (4) the lack of closer International Development Cooperation Agency (IDCA) and Agency for Development (AID) coordination with OPIC with respect to project identification. (See pp. 13-17.)

For the poorer countries and for small business investors, it appears that the availability of OPIC services, particularly its financing, does have some importance in the

decisions of potential investors. Thus, OPIC has probably enabled some additional investments to be made in the poorer countries and by small businesses. Still, there are a great many obstacles to investing in developing countries which OPIC can do little to minimize. (See pp. 17-19.)

In May 1980 the OPIC Board of Directors approved a decision to request the Congress to remove the statutory restriction on OPIC activities in those countries having per capita incomes above \$1,000. GAO believes this restriction, imposed by the Congress in 1978, could be removed without changing OPIC's focus on the poorer countries as long as certain conditions are met. (See pp. 19-21.)

U.S. TRADE IMPACT: SPECIFIC
EXPORT TARGETING NEEDED

The issue of whether OPIC can serve both a development and a U.S. export promotion purpose needs to be more fully explored to determine (1) the kinds of investments likely to spur U.S. exports and (2) the possible conflicts that might arise between country development interests and U.S. export interests.

Developing countries are considered the world's fastest growing markets, and the United States needs to maintain its competitiveness in exporting to these markets. The role of U.S. investment, and of the OPIC program in particular, in helping U.S. business to reach these markets is not clear because there is continuing debate over what kinds of U.S. investments overseas stimulate or displace U.S. exports. Ultimate export effects can be extremely difficult to determine, particularly regarding displaced U.S. exports and the long-term effects of technology transfers.

GAO does not believe it is necessary to require OPIC verification of all investors' export claims, although this would be desirable initially for OPIC's present policy of

approving trade-oriented investments on a case-by-case basis in the more advanced developing countries. Instead, OPIC, together with other export-related U.S. agencies, needs to refine its present efforts to support targeted, export-oriented investments. (See pp. 39-41.)

In May 1980, the OPIC Board of Directors approved the addition of a trade exception to the \$1,000 per-capita GNP restriction for projects promising "significant net U.S. trade benefits." GAO believes that OPIC does have potential to serve a U.S. trade promotion objective together with its primary development objective, but that OPIC needs to examine each investment proposal thoroughly for trade effects and possible development conflicts. For this reason, GAO believes OPIC should continue its present policy of approving export-oriented investments on a case-by-case basis and that OPIC's legislative mandate does not need to be revised to give it an overall trade objective. (See pp. 32-43.)

U.S. JOBS IMPACT: COORDINATION
WITH LABOR ESSENTIAL

Intense controversy surrounds the issue of whether U.S. foreign investments result in U.S. job losses from additional imports and displaced exports or in job gains from new exports resulting from these investments.

OPIC maintains that its analysis of the U.S. effects of investments it insures or finances effectively screens out investments which might result in job losses. Although GAO did not find in its case studies of projects in sensitive industries direct relationship between the overseas investment and subsequent U.S. job losses, it did find clear inadequacies in aspects of OPIC's screening and monitoring processes.

OPIC's major weakness in its screening of proposed investments for possible adverse U.S. employment and economic effects is its

failure to consult routinely with appropriate Labor Department and labor union officials. Currently, OPIC relies heavily on investor-supplied information and on Commerce Department and International Trade Commission industry specialists. OPIC also does not have specific operational guidelines for approving projects in all import-sensitive industries. (See pp. 46-48.)

The labor movement, on the other hand, has been unwilling to fill its seat on the OPIC Board of Directors. GAO believes the Labor Department, with the OPIC directors, should take the lead in resolving this problem. (See p. 48 and 55.)

SMALL BUSINESS PARTICIPATION:
BASIC TARGETS MET

For 2 of the past 3 years, OPIC has met the congressional mandate that small business projects comprise at least 30 percent of both OPIC's approved insurance and finance projects each year. In fiscal year 1980, small business projects (defined as those not on the "Fortune 1,000" list) accounted for 50 percent of OPIC's finance portfolio and 31 percent of its insurance projects. (See pp. 57-58.)

Large U.S. firms remain the major users of OPIC in terms of amounts of insurance issued, because they are more active as foreign investors and have greater resources available to invest in bigger projects. In fiscal year 1979 the top 20 firms, 15 of which are large businesses, accounted for 83 percent of insurance issued.

Small businesses face numerous obstacles to foreign investment that larger, experienced firms do not. Small businesses generally lack the resources and expertise to establish ventures overseas and remain for long periods. The complex investment approval procedures of many developing countries and problems of geographic distance and language

differences also pose greater obstacles for small firms than for large, experienced firms. (See pp. 61-62.)

In response to its congressional mandate, OPIC has initiated in the past 2 to 3 years several programs to attract small business participation. At the time of GAO's review, however, OPIC had very little knowledge of the actual results of these programs and did not actively follow up with the small businesses to keep track of their progress and problems in making overseas investments. OPIC now has developed a more routine follow-up system for these programs, which needs to be fully implemented. (See pp. 59-60.)

OPIC could also possibly increase small business participation through (1) closer collaboration with embassy and AID officials, and (2) adoption of a concessional split-rate premium fee structure to provide advantageous insurance rates for small business. (See p. 63.)

RECOMMENDATIONS

To help improve the development benefits of OPIC-supported investments, the Director of IDCA and the President of OPIC should develop and implement (1) policy guidelines and (2) a system of closer coordination with the Departments of State and Commerce to

- identify in the poorer developing countries appropriate, development-oriented and financially attractive investment opportunities;
- help to resolve problems encountered by U.S. business in the investment process; and
- assist interested developing countries to improve foreign investment screening and approval processes, priorities, and promotion efforts.

With respect to (1) the OPIC role in stimulating U.S. exports, (2) its screening of proposed investments for adverse U.S. effects, and (3) its encouragement of small business investments, GAO recommends that the President, OPIC, in consultation with the Director, IDCA,

- undertake, in conjunction with the primary U.S. export-oriented agencies, a concerted effort to further identify the specific areas and means by which U.S. foreign investments can significantly stimulate U.S. exports;
- improve OPIC's project selectivity;
- establish a more active role for AID in devising guidelines and criteria and screening exception cases to promote exports;
- require the OPIC staff (1) to consult with appropriate Labor Department and labor union officials and industry experts when assessing import-sensitive project proposals, and (2) to develop specific operational guidelines for approving projects in all import-sensitive industries; and
- fully implement its system for evaluating and following up on OPIC small business promotion efforts, particularly its investment-mission and feasibility-study programs.

AGENCY COMMENTS

As requested, GAO did not follow its usual practice of obtaining agency comments on the report.

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ABBREVIATIONS

AID	Agency for International Development
IDCA	International Development Cooperation Agency
OPIC	Overseas Private Investment Corporation



CHAPTER I

INTRODUCTION

At the request of the Chairman of the Senate Committee on Foreign Relations, we reviewed certain activities of the Overseas Private Investment Corporation (OPIC). This request primarily involved (1) the impact of OPIC programs on country development; (2) the extent to which OPIC-supported investments stimulate U.S. exports; (3) the impact of these investments on U.S. employment; and (4) the participation of small U.S. businesses in OPIC programs.

OPIC PROGRAMS AND FINANCIAL STATUS

OPIC was created by the Foreign Assistance Act of 1969 to mobilize and facilitate

"* * *the participation of United States private capital and skills in the economic and social development of less-developed friendly countries and areas, therefore complementing the development assistance objectives of the United States."

OPIC operates two main programs: it insures U.S. private investments against certain political risks in developing countries, and it finances the investigation and development of the projects of U.S. investors in these countries. The OPIC insurance program provides coverage against

- the inability to convert, into dollars, the local currency received by the investor as profits, or earnings, or return of the original investment;
- the loss of investment due to expropriation, nationalization, or confiscation by action of a foreign government; and
- loss due to war, revolution, or insurrection.

OPIC insurance coverage typically is assured for the duration of project loans or contracts and for 12 to 20 years on equity. OPIC rates are based on the coverage elected and on OPIC assessments of project risks (generally averaging around 1.5 percent a year).

The OPIC finance program is intended to be of particular assistance to small U.S. businesses and to the poorest countries. It consists of

- direct loans from its \$50 million Direct Investment Fund;
- loan guaranties issued to private U.S. financial institutions for project loans, covering both political and commercial risks; and
- pre-investment assistance, offering funding of surveys, on a cost-sharing basis, to confirm the viability of projects.

The OPIC Direct Investment Fund serves to provide financing for projects which are commercially feasible but for which sufficient commercial capital is not available on satisfactory terms. For example, OPIC will lend on terms which private lenders generally will not accept, such as lending to a private (rather than government) entity for longer than 5 to 6 years, with an appropriate grace period, at a fixed rate, without sponsor guaranty, and in politically risky countries. In addition, OPIC runs several investment-information and promotion activities.

Commitments for all these programs are backed by (1) OPIC capital and financial reserves--totaling \$649,566,826 as of September 30, 1980--and (2) by the faith-and-credit pledge of the United States for full payment.

As of September 30, 1980, OPIC's outstanding maximum coverage totaled \$2.7 billion for inconvertibility; \$3.3 billion for expropriation; and \$2.9 billion for war risks. OPIC estimates its maximum potential liability to be approximately \$3.1 billion. OPIC has authority to cover \$7.5 billion of contingent liabilities. As of September 30, 1980, \$4.3 billion of this authority remained available. OPIC also has outstanding prior authorities of about \$2.2 billion.

The OPIC issuing authority for loan guaranties is \$750 million. As of September 30, 1980, \$299.5 million in loan guaranties were outstanding, of which \$175.3 million was committed in fiscal year 1980 for eight projects.

Of its \$50 million Direct Investment Fund, \$14.5 million remained uncommitted at the end of fiscal year 1980. In fiscal year 1980, \$5 million was committed for eight projects.

Eight feasibility studies were financed during fiscal year 1980 for a total commitment of \$199,421.

OPIC's loss on claims settlements during fiscal year 1980 was \$2.29 million; claims pending at the close of the period totaled approximately \$16 million. OPIC's operating authority is due to expire at the end of September 1981.

RECENT LEGISLATIVE CHANGES

In April 1978, the Congress revised the OPIC authorizing legislation to highlight its development objectives and its role in assisting small U.S. businesses by

- requiring OPIC to give preference to projects in poorer developing countries (per capita income under \$520) and restrict its activity in countries with per capita incomes over \$1,000 (in 1975 dollars);
- restricting OPIC direct project financing to projects either sponsored by or significantly involving small U.S. businesses 1/;
- setting a goal for OPIC to increase the proportion of projects involving U.S. small businesses to at least 30 percent of the total projects insured or guaranteed each year; and
- permitting OPIC to increase the pre-investment information and financial services it provides these small U.S. enterprises by using up to 50 percent of its annual net income to fund special programs to assist small business development in eligible developing countries.

The conference report on this new legislation set forth a number of guidelines to be used in evaluating the development impact of projects. The new legislation also repealed the 1974 mandate to transfer OPIC's insurance program to the private sector. In addition, as of October 1, 1979, OPIC and

1/As noted in the conference report on this legislation, small businesses are considered to be those on the "Fortune 1,000 list."

the Agency for International Development (AID) became part of the newly formed International Development Cooperation Agency (IDCA); thus, OPIC is no longer an entirely independent agency and now has the IDCA Director as Chairman of its Board of Directors.

PRIOR GAO REVIEWS OF OPIC

In addition to our annual financial audits of OPIC, conducted pursuant to the Government Corporation Control Act (31 U.S.C. 841 et seq.), we have reviewed specific OPIC activities on two previous occasions, also at the request of the Senate Foreign Relations Committee. In 1973, we reviewed OPIC program management. 1/ In 1977, we reviewed (1) OPIC success in obtaining private participation in its insurance programs, (2) the potential OPIC financial risks in certain countries and in extractive industries, (3) the extent of U.S. Government involvement in claims disputes, and (4) the participation of small U.S. investors. 2/ These reviews noted the heavy concentration of OPIC insurance in a small number of countries, the clear predominance of large U.S. investors, and the weakness of OPIC monitoring systems. The latter review also concluded that private participation was very difficult to achieve because U.S. companies were reluctant to participate.

OBJECTIVES, SCOPE, AND METHODOLOGY

In this review, we focused on the four basic areas of the Committee's concern--host-country development impact, U.S. export stimulation effect, U.S. employment impact, and participation of small U.S. businesses. We did not review other aspects of OPIC operations such as its claims procedures and experiences, or its success in developing energy and raw material supplies in developing countries, even though an increasing portion of the OPIC portfolio is now in this area.

For case studies illustrating OPIC's developmental, trade, and U.S. jobs impact, we selected a total of 30 OPIC-assisted investments in 6 countries. Because we wanted to review primarily those investments undertaken since the 1978 congressional focusing of OPIC objectives, all our investment cases were insured or financed during fiscal years 1977-80. We chose: Haiti and Honduras, two of the poorest countries in

1/"Management of Investment Insurance, Loan Guaranties, and Claim Payments by the Overseas Private Investment Corporation," B-173240, July 16, 1973.

2/"The Investment Insurance Program Managed by the Overseas Private Investment Corporation," ID-77-49, July 26, 1977.

Latin America; Indonesia and Nigeria, two basically poor oil-producing countries with very large internal markets; Egypt, a country whose development and trade potential is of special interest to the United States; and Taiwan, one of the most rapidly growing industrial and export-dependent countries of Southeast Asia.

The sectoral distribution of our investment cases is shown in the following table. About one-third (9) of our case studies were investments undertaken by small U.S. businesses.

<u>Types of investment</u>	<u>GAO case studies</u>	<u>Number of countries</u>
Agribusiness	8	6
Miscellaneous light industry	8	4
Light industry--electronic assembly	6	3
High-technology industries	4	2
Servicing and sales distributors	3	2
Services (banking)	1	1

We did not rely solely on these case studies for our observations and conclusions, but we attempted in each chapter to place the case studies in the perspective of overall U.S. foreign investment in developing countries.

During the course of our review, we interviewed: OPIC and other U.S. Government officials, both in the United States and overseas; representatives of the 30 investing companies in the United States and at their overseas operations; U.S. labor union and trade association officials; representatives of the U.S. business community overseas, including non-OPIC insured investors; and host-government officials in the five countries we visited (all but Nigeria). We also examined U.S. Government agency files and documents.

We relied mostly on the cooperation of OPIC-assisted investors in the United States and overseas for specific company information. Although most company officials talked freely with us, many were not able or were reluctant to give us concrete data on procurement activities, financial returns, or the effect of foreign investment on their U.S. employment.

As requested, GAO did not follow its usual practice of obtaining agency comments on the report.

CHAPTER 2

OPIC'S DEVELOPMENTAL IMPACT

Since its initial authorization in 1969, OPIC's primary purpose has always been developmental. Legislative changes in 1978 focused OPIC programs on the poorer developing countries by requiring that OPIC give preference to projects in such countries (those with per capita incomes of \$520 or less) and with few exceptions, restrict projects in countries with per capita incomes over \$1,000 (in 1975 dollars). This legislation also required OPIC to develop improved criteria in consultation with AID to be used in screening out proposed investments with possible adverse development effects.

OPIC has made progress in diversifying its finance and insurance portfolios toward the poorer developing countries and, in conjunction with AID, has adopted project screening criteria consistent with congressional guidelines. We found these OPIC investments to be fully welcomed by host countries as contributing to their development needs, and OPIC officials regarded as sincerely interested in the OPIC development role.

Despite its several investment-screening processes, OPIC, however, has at best only limited opportunities to enhance the developmental aspects of individual investment projects or to be particularly selective in choosing investments to support. This limitation stems from several factors over which OPIC alone has little control--(1) limited ability to influence investor-initiated proposals, (2) a lack of investment proposals submitted by U.S. investors from which OPIC can select those fully meeting the congressional criteria, (3) the willingness of developing countries to accept foreign investments with minimal screening of development effects, and (4) the lack of closer IDCA and AID coordination with OPIC with respect to project identification.

One possible improvement to strengthen OPIC's development impact to conform more with congressional development objectives for OPIC (as expressed in the screening criteria) could be a more concerted OPIC, IDCA, and AID effort to identify developmentally desirable and financially attractive investment opportunities, to help minimize investment problems in the poorer developing countries, and to advise interested developing countries on their efforts to attract foreign investment.

Although we do not believe OPIC has demonstrated a real need to remove the statutory \$1,000 restriction, we believe this restriction could be removed without changing OPIC's focus on the poorer countries as long as certain conditions are met.

PROGRESS IN DIVERSIFYING
PORTFOLIO TOWARD POORER COUNTRIES

OPIC has made definite progress in responding to the congressional requirement that it diversify its portfolio by giving preference to those poorer countries with per capita incomes under \$520 (in 1975 dollars). As part of this emphasis, OPIC has in the past 2 to 3 years activated several programs to help reach these poorer countries. The extent to which OPIC can continue to assist poorer countries, however, is limited by country eligibility restrictions, developing-country investment-climate problems, certain U.S. laws reported to discourage U.S. investments overseas, and a lack of profitable investment opportunities in some of the poorer countries.

Reduced country concentration

The overall country concentration of OPIC's total insurance portfolio has been significantly reduced. According to a Congressional Research Service report, ¹/ 83 percent of the dollar amount of the insurance portfolio was concentrated in only 8 countries in 1973. As of the end of fiscal year 1980, the first 8 countries comprised only 54.1 percent of the total. (See table 2-1.)

The list of the top seven countries receiving insurance coverage for fiscal years 1977-79 (shown in table 2-2) reveals a continuing concentration within each year, which reflects mostly the large size of individual projects (often energy and mineral projects). One \$75-million energy project in Egypt, for example, accounted for 27 percent of the total OPIC insurance portfolio in 1979; and in 1978, an oil shipment facility in Panama accounted for 23 percent of the total OPIC insurance portfolio. No single country, however, appears in the list for all 3 years.

¹/"The Overseas Private Investment Corporation: A Critical Analysis," prepared for the Committee on Foreign Affairs, Sept. 4, 1973.

Table 2-1
TOP 8 COUNTRIES
RECEIVING OPIC INSURANCE COVERAGE
Cumulative by Percent of Total Coverage

1973	1980
Korea	Jamaica
Indonesia	Korea
Brazil	Indonesia
Taiwan	Dominican Republic
Botswana	Brazil
Singapore	Philippines
Philippines	Taiwan
<u>Israel</u>	<u>Ghana</u>
83 percent	54 percent

Table 2-2
TOP 7 COUNTRIES RECEIVING INSURANCE
COVERAGE FOR FISCAL YEARS 1977-79 a/

1977	1978	1979
Brazil	Panama	Egypt
Ghana	Saudi Arabia	Greece
Jordan	Israel	Botswana
Taiwan	Brazil	Pakistan
Greece	Sudan	Ghana
Indonesia	Egypt	Indonesia
<u>Korea</u>	<u>Taiwan</u>	<u>Korea</u>
77.23 percent	68.52 percent	72.98 percent

a/ Ranking determined by total current insurance at end of fiscal year for inconvertibility, expropriation, and war risks.

TABLE 2-3
GEOGRAPHIC DISTRIBUTION OF
INSURANCE COVERAGE
(BY PERCENT OF TOTAL) a/

	Africa b/	Latin America c/	Mid-East	Asia	Southern Europe
1977	16.4	37.7	20.3	20.1	5.5
1978	4.0	41.7	35.6	17.0	1.7
1979	18.1	8.5	36.7	23.5	13.2

a/ Percentages for each area include coverage for inconvertibility, expropriation, and war risks.

b/ Sub-Saharan area only.

c/ Includes Central and South America and the Caribbean area.

The distribution of OPIC insurance coverage by geographic regions changes each year. Over the 1977-79 period, insured investments in the Middle East and Asia were fairly constant; in Latin America and Africa the variances were greater. The African region continues to attract the fewest number and smallest amount of OPIC insured investments. (See table 2-3.)

Reaching the poorer
developing countries

Of the 87 projects insured by OPIC in fiscal year 1980, 41 projects were in the poorer developing countries (or 47 percent). Of the remainder, 24 projects were in countries with per capita GNPs of less than \$1,000 (or 28 percent); 9 projects were in Taiwan, which has a special congressional exemption from the \$1,000 restriction (or 10 percent); and 13 projects were in the higher-income developing countries (or 15 percent). Of the 18 direct-loan and loan-guaranty finance projects in fiscal year 1980, 16 were in the poorest developing countries (or 89 percent). (See table 2-4.)

Table 2-4

OPIC-ASSISTED PROJECTS IN
POORER DEVELOPING COUNTRIES a/

<u>FY</u>	<u>Finance</u>		<u>Insurance</u>	
	<u>projects</u>	<u>percent</u>	<u>projects</u>	<u>percent</u>
1975	8	75	59	39
1976	5	50	45	44
1977	3	75	23	36
1978	6	60	34	40
1979	6	43	37	48
1980	16	89	41	47

a/In fiscal years 1975, 1976, and 1977 the poorer developing countries were defined as having per capita incomes below \$450. In fiscal years 1978, 1979, and 1980 the cutoff was \$520.

As part of this emphasis on the poorer countries, OPIC has activated several previously dormant programs and has initiated new programs and new guidelines. Its investor-mission and feasibility study programs have been activated in recent years, essentially to focus on poorer countries and smaller U.S. investors. Under the investor-mission program, OPIC leads a group of interested investors to a country (at

their own expense) to meet with high-level government officials and local businessmen. OPIC has sponsored seven investor missions since November 1978. These missions visited the five ASEAN nations (Philippines, Indonesia, Thailand, Malaysia, and Singapore), three Mediterranean countries (Greece, Turkey, and Yugoslavia); Sudan; Honduras; Dominican Republic; Sri Lanka; and Kenya. For 1981, OPIC is considering possible investor missions to Papua New Guinea, Morocco, Portugal, Haiti, and Nigeria.

The OPIC program to help finance pre-investment feasibility studies was virtually dormant before 1979. Under this program, OPIC finances 50 percent of the cost up to \$50,000 (75 percent for small businesses). In fiscal year 1980, OPIC funded eight feasibility studies in six countries; five studies were in poorer countries. OPIC also occasionally offers technical assistance on investment matters to requesting countries.

Recent emphasis on energy and mineral development has also helped bring investments to some poorer countries by providing some risk protection to extractive projects. In addition, new OPIC policy guidelines adopted in August 1980, require OPIC management to focus promotional activities and operational programs on the least developed countries.

OPIC activity in \$1,000
per capita GNP countries

Under OPIC Board of Director guidelines, OPIC is permitted to support projects in countries above the \$1,000 per capita GNP restriction for

- energy and mineral projects;
- small business and cooperative projects;
- case-by-case project exceptions, as for projects with exceptional developmental or trade benefits;
- Taiwan, as part of the Taiwan Relations Act of 1979;
- insurance of contractor's bid, performance, and advance-payment guaranties; and
- projects reinsured by OPIC.

During the last 3 fiscal years since this restriction was enacted, the OPIC Board of Directors approved 71 projects in these countries. Of these projects, 30 were for small businesses or cooperatives; 5 were for exceptional development benefits (in Panama, Brazil, Yugoslavia, Singapore, and Costa Rica); 11 were for energy and mineral development; and 16 projects were for Taiwan. The remaining projects fell into miscellaneous categories. Cumulative figures for worldwide insurance show that, of the above \$1,000-countries, only two (Brazil and Panama) have coverage above 5 percent of the world total in any category of insurance (inconvertibility, expropriation, or war).

Constraints to further diversification

OPIC is constrained from further diversifying its portfolio by (1) eligibility criteria other than the \$1,000 restriction, (2) specific obstacles to investment in many developing countries, (3) certain U.S. laws reported to discourage U.S. foreign investment, and (4) lack of profitable investment opportunities in some of the poorer countries. Countries excluded by the \$1,000 limit, as of May 1980, are shown in Appendix II. Several other countries are restricted by (1) their refusal to submit investment disputes to international arbitration (the Andean Pact countries of South America), (2) lack of an agreement with the United States regarding OPIC program operations, or (3) human rights considerations. No actual list of countries prohibited by human rights considerations was available to us, but projects are being refused on these grounds in such countries as Paraguay, Chile, Argentina, Venezuela, and South Africa.

Many developing countries also have investment climates viewed as too difficult even for many experienced investors. Some host-country obstacles to investment in the six countries we studied are

- complex government bureaucratic approval processes resulting in extensive delays and uncertainties;
- a lack of centralized information sources about local markets and investment procedures, laws, and regulations;
- local investment laws requiring majority equity and control by locals;
- inadequate transportation and communications;

- inadequate numbers of skilled and productive workers and trained managers;
- a lack of long-term financing;
- political unrest in neighboring countries;
- competition from government-subsidized local companies; and
- weak local patent protection.

Our case-study countries of Egypt, Nigeria, and Indonesia have recently taken initial steps to reduce some obstacles to investment. These countries, known for their complex and inefficient bureaucracies which impeded U.S. investments in the past, have recently moved to establish single offices to handle the approval process. They also plan to more actively seek U.S. investments through promotion efforts and visits to the United States.

Most U.S. company officials we contacted, both in the United States and overseas, stressed that certain U.S. laws also inhibit them from investing overseas. The most frequent complaints were against the vagueness of the Foreign Corrupt Practices Act, the increased cost of keeping U.S. managers overseas due to U.S. taxes on income earned abroad, and the shortage of competitive U.S. export financing. 1/

In addition, OPIC has not been able to encourage U.S. investments in some poorer countries because of a lack of investment opportunities attractive to U.S. investors. This

1/GAO currently has underway a comprehensive review of the impact of the Foreign Corrupt Practices Act on U.S. business. With regard to U.S. taxation of income earned abroad, GAO has issued two reports ("Impact on Trade of Changes in the Taxation of U.S. Citizens Employed Overseas," ID-78-13, Feb. 21, 1978; and "Revenue Estimates Under Various Methods of Taxing Americans Abroad," ID-78-52, July 27, 1978) and is now reviewing the Foreign Earned Income Act of 1978. With regard to the shortage of competitive U.S. export financing, GAO has recently issued one report--("Financial and Other Constraints Prevent Eximbank From Consistently Offering Competitive Financing for U.S. Exports," ID-80-16, Apr. 20, 1980)--and has underway a review of the impact of Eximbank's lending practices on Bank earnings and capital.

has been the case principally in the countries of sub-Saharan Africa, where internal markets are viewed as too small because of small populations and the extent of poverty.

SCREENING PROCESSES TO SELECT DEVELOPMENTAL INVESTMENTS

Proposed investment projects undergo several OPIC screening processes--first, by OPIC for developmental impact and for investor, host-country, and project-type eligibility; and then by the U.S. embassy, for host-country impact, and by the host country, from which OPIC requires an official approval. These screening processes serve to screen out clearly undesirable investment proposals but are not able to contribute much to enhancing the development impact of individual OPIC-assisted projects because few opportunities exist to influence the nature and type of investment proposals OPIC receives. For case studies of the development effects of OPIC-supported investments, see Appendix I.

Internal OPIC screening processes

OPIC is largely a reactive agency, particularly for its insurance projects, and must wait for actual investment proposals to be submitted to it. Once an investor applies to OPIC for insurance, most specific details of the investment have already been decided. All the insurance officers with whom we spoke said they had very limited ability to influence the developmental aspects of proposed investments, because U.S. investors are likely to resent such interference. The officers believe that the most they can do is occasionally ask suggestive questions, such as whether the investors had thought of providing transportation or medical benefits for their workers. The U.S. investors with whom we talked confirmed that OPIC had not suggested developmental changes and that they usually would not welcome such suggestions. Thus, the developmental aspects of the investments we studied were all initiated by the U.S. investors as a matter of company policy or negotiations with the host governments.

For OPIC's finance programs--direct loans, loan guarantees, and feasibility studies--the OPIC staff appears to become more involved in at least the financial aspects of the investments. For these finance projects, OPIC is more able to influence certain aspects of the loans, such as the capital structure and local equity participation. Finance officers also tend to travel more than insurance officers, seeking out developmental investment opportunities and talking to host-government officials. OPIC analysis of each finance project

also shows much greater detail than for insurance applications because OPIC is committing funds directly or is guarantying loans.

Although OPIC finance projects involve smaller amounts of foreign capital than insurance projects, they tend in other respects to be more developmental than insurance projects because they (1) are more often located in the poorer countries, (2) offer medium and long-term loans (up to 12 years), for which there is a crucial shortage in these countries, and (3) are slightly more subject to OPIC suggestions on developmental aspects. Because the ability of OPIC to finance projects in poorer countries depends on expansion of OPIC reserves--which, in turn, depends partly on premium income received from insurance contracts--the insurance program does indirectly contribute to the size of the finance program.

OPIC's lack of opportunity to be particularly selective in choosing investments to support also stems from the lack of sufficient eligible investor applications to permit OPIC to select only those fully meeting the congressional development criteria. For all the countries we studied except Taiwan, OPIC insurance officers told us there is no real backlog of eligible investment proposals from which to select the most developmental to insure.

Of about 475 investments proposed for insurance between January 1977 and November 1980, only 13 were rejected for inadequate development benefits. A total of 226 projects were rejected, but most were rejected--sometimes in an initial telephone inquiry before any application was submitted--because of eligibility problems about the country or investor, such as Andean Pact countries or human rights problems.

The OPIC criteria for screening projects for development impact are good and closely follow those specified during congressional consideration of the 1978 legislation. But it appears that few investment project proposals submitted to OPIC fully meet these criteria. In addition, on the Development Impact Profile form prepared by OPIC for proposed investments, each of the development criteria can be easily filled with some descriptive information taken from the investor's application form, without any evaluation from the OPIC officer as to how many of the criteria are satisfied. A result of this is that OPIC is able to approve applications as long as there is no overtly adverse effect on development, jobs are created, and the host government approves the investment.

Even the most capital-intensive projects can involve some job creation and may transfer technology desired by the host country. Although OPIC states that it should not be supporting projects which produce luxury consumer items, it has not in fact ruled these out if the investment is approved by the host country, creates jobs, and replaces imports, as was the case in a recent U.S investment in Egypt. Because OPIC has not systematically monitored the development effects of its investments, it has little firsthand knowledge of how they are proceeding once the contract is signed. (See ch. 4.)

Minimal embassy and AID involvement in screening OPIC investments

For each investment proposed, OPIC seeks recommendations from the U.S. embassy, which can but does not always include AID mission review and comments as well. We found this aspect of the screening process to have virtually no effect on the developmental aspects of OPIC investments.

The embassies typically consider the overall impact of the investment and may occasionally find need to comment on its political aspects or the appropriateness of any proposed local partners. Embassy officers we talked to said OPIC investments are almost always routinely approved with minimal comment.

AID mission officials may see the OPIC request for comment on proposed investments, but they rarely make specific comments. Of the countries we visited, only in Egypt--where AID has a program to help develop Egypt's private sector--did AID mission staffs or Washington desk officers have any real knowledge of OPIC-supported investments. Most AID officials said that the AID Basic Human Needs emphasis, usually involving small-scale rural projects, is so distinct from the kinds of U.S. private investment coming into the developing countries that there is little reason or room for closer coordination.

In the year that OPIC has been a component of IDCA, IDCA has taken little initiative either in providing OPIC with policy or operational guidance to enhance its developmental role, or in seeking appropriate ways to strengthen AID and OPIC coordination. The IDCA Director presides over Board meetings where certain OPIC projects must be approved. The AID staff has occasionally submitted their comments on certain projects to the IDCA Director for presentation at Board meetings. On one occasion, AID did have strong criticisms of the long-term economic costs of a proposed OPIC project, but the project was approved anyway.

Minimal host-government
screening of incoming investments

Investment officials in all countries we visited said that they welcome and encourage foreign investments, because such investments bring additional capital and technology and create jobs and, often, foreign exchange. Most of these countries, except for Taiwan and possibly Haiti, have been somewhat disappointed in recent levels of U.S. private investment. Because these countries are eager to attract U.S. investments but have not had great success so far, these countries have not been highly selective in screening foreign investments for developmental impact.

To be sure, most of these countries have policies restricting foreign investments from certain sectors and requiring some local equity participation. But investment officials admitted that they fully welcome--and some prefer--high-technology, capital-intensive U.S. investments, even though these involve few local jobs. Each country has its own development strategy, and this may not always be consistent with the OPIC/AID development criteria.

Few investment officials we talked to could cite more than one or two U.S. investments that they had rejected. Some investment proposals do get rejected simply through bureaucratic inaction. This appears to be the case in at least two of our case-study countries (Egypt and Indonesia), where a local ministry or agency saw the investment competing with their own activities. Such bureaucratic rivalries can seriously distort the investment-screening process.

Possibilities for strengthening
development impact

The establishment of developing country investment priorities and screening mechanisms is clearly the responsibility of the country itself. It appears, however, that these countries could benefit from some assistance in learning to successfully promote the types of foreign investments they really need. Several host-country officials told us that they are not receiving foreign investment proposals which meet their priorities for foreign investment and development. At present, neither embassy commercial and economic staff nor AID mission staffs have taken a very active role in advising developing countries on how to promote desired foreign investments. One exception is in Egypt, where a coordinated U.S.-Egyptian effort is underway to attract developmentally

positive investments and to reduce the obstacles to investment in Egypt--even though results so far have been disappointing in terms of amounts and sectors of U.S. investments in Egypt.

Because of OPIC's inability to influence investor-initiated projects and the lack of numerous investment proposals from which OPIC can choose the most developmental, we believe OPIC presently has little opportunity to enhance the development benefits of individual investments. One possible way to strengthen the development impact of individual investments to conform more with congressional development objectives for OPIC could be a more concerted OPIC, IDCA, and AID effort to identify investment opportunities which are both developmentally positive and financially attractive as business investments. Currently, little effort of this type is underway.

Many developing countries, for example, now have regional development plans, some of which AID has assisted in designing, and these plans often include tax and other incentives to attract foreign investment. By virtue of AID's staff presence in most of the poorer countries and its knowledge of these countries' developmental needs, AID should be in a position to help identify investment opportunities and to advise interested developing countries on their investment promotion and approval processes. AID also has an office for "appropriate" technology which would be useful both to the developing countries and to some U.S. investors who may not want to use expensive capital-intensive technology in their investments. In providing overall policy guidance to OPIC and AID, IDCA is in a position to explore additional ways to enhance the developmental impact of OPIC-supported investments and make AID and OPIC activities more complementary.

One effort OPIC has made to help developing countries improve their ability to attract desired foreign investments has been their partial funding of the U.N. Industrial Development Organization's Industrial Investment Promotion Service. This program helps train investment promotion officers of developing countries and helps identify potential investors.

OPIC ROLE IN PROMOTING ADDITIONAL INVESTMENTS

The question about whether the availability of OPIC insurance is an important factor in a U.S. firm's decision to

invest in the poorer countries, thereby helping channel additional U.S. investments to them, has been thoroughly examined in the past without any definitive resolution. We also found a mix of answers among the investors we interviewed.

Even among the largest U.S. firms, there were varying company policies. Some have used OPIC routinely over the years because they do not consider it expensive; some used OPIC only in those countries that their banks or boards of directors believed were politically unstable; at least one firm said that now, after the Iranian revolution, it uses OPIC routinely, whereas it had not used OPIC at all before. Recent government changes in other countries assumed to be stable--Korea, Liberia, and Nicaragua, for example--are reported to have increased U.S. business concern over investing in the developing world. Overseas, most of the American businessmen, bankers, and embassy officials we contacted stated that there is a need for OPIC, although some admitted that OPIC-insured investments are only a small portion of the investments being made in these countries.

Among the small business investors, the majority stressed the importance of OPIC insurance and financing to their investment decisions although several believed that OPIC services were relatively expensive. Several small businesses stated that they have difficulty competing with larger businesses in obtaining financing for overseas investments and that in this area OPIC has been particularly helpful.

For the poorer developing countries, it is generally believed that OPIC insurance does make more of a difference to U.S. investors--not because these countries are necessarily more unstable, but because the more advanced countries have already attracted significant foreign investments and the larger companies are already familiar with the business environment in these countries, which is also likely to be more sophisticated than in the poorer countries. Several of our case-study investors, large and small, as well as some host-country officials, told us that, in a sense, OPIC's willingness to insure investments in the poorer countries was a kind of "seal of approval" for these countries, which would help bring in additional foreign investors.

Thus, we believe OPIC can make some difference in attracting certain additional U.S. investments. OPIC alone can do little, however, to reduce the many other obstacles to investing in developing countries which inhibit U.S. investors.

PROPOSAL TO REMOVE THE \$1,000 RESTRICTION

Despite significant progress in meeting its legislative mandate to encourage projects in the poorest developing nations, in May 1980, the OPIC Board of Directors approved a decision to request the Congress to remove the statutory restriction on OPIC activities in those countries having per capita incomes above \$1,000.

This restriction, adopted by the OPIC Board in 1977 and codified by the Congress in 1978, was approved in the belief that higher-income developing nations were capable of attracting foreign private investment, particularly from larger investors, without the assistance of OPIC programs. It was also believed that, without such a measure, OPIC program authorities and staff-time might be so concentrated on larger investor projects in richer developing nations that smaller investors and poorer countries would be unable to take advantage of OPIC programs.

An interagency task force 1/ on the OPIC re-authorizing legislation based its general agreement to this request for a statutory change on the following considerations.

- There are still significant development needs in the higher-income developing nations.
- There would be no diminution of the OPIC development role or its commitment to promote projects in the poorer countries.
- There would be no adverse effect on the availability of OPIC program authorities or staff-time to fully meet the needs of the poorest countries or of smaller investors.
- Removal of the restriction would result in significant financial and risk-management benefits to OPIC, in terms of being able to spread its portfolio of risks more widely.

1/Composed of representatives from the Departments of State, Commerce, the Treasury, Labor, Energy, and Agriculture, and from OPIC, the Office of Management and Budget, the U.S. Trade Representative, and the Eximbank.

--Increased investments in the higher-income countries would most probably result in increased U.S. trade benefits.

--Higher income received from increased business in the more advanced countries would permit increased funding for special development programs.

Task force arguments in favor of retaining the \$1,000 limitation were as follows.

--For the poorer countries, the availability of OPIC programs is more likely to lead to "additional" investments, in the sense that an investor will invest with OPIC support, but not without it.

--For energy and mineral projects and for small business investors (for which it is reported that political risk has deterred investments in all developing countries), exceptions to the \$1,000 limit have already been adopted by the OPIC Board of Directors.

--Adequate reserves already exist to support more loans and guaranty programs in the poorer countries. The reason for the small size of these programs over the past several years, until 1979-80, had been the lack of projects proposed.

--This limit has so far had a positive effect on concentrating OPIC activities in the poorer countries.

The majority of the task force voted to remove the \$1,000 restriction; only the Departments of State, Labor and the Treasury voted against it. Treasury and Labor voted to strengthen this restrictive policy by requiring OPIC's Board to approve all exceptions, rather than delegating this authority to OPIC management.

Because OPIC has made progress in diversifying its portfolio toward the poorer countries, OPIC has not, in our opinion, been able to name many real problems which this restriction has caused. OPIC does note the increase in staff-time required to promote and process investment applications

for the poorer countries and by smaller investors. It appears to us, however, that OPIC still has time to handle proposed investments in the eligible higher-income countries. OPIC also emphasizes that restricting OPIC programs in advanced developing countries does not cause investments to be diverted to poorer countries and that the effect of this limit is to deprive OPIC of income from operations in countries exceeding the \$1,000 limit. OPIC also notes that it has had to turn away many investors interested in countries which are no longer eligible, and that, initially, after the 1978 legislative changes it had a significant fall-off in business. Thus, OPIC maintains that it is "less financially strong than it could otherwise be."

CONCLUSIONS AND RECOMMENDATIONS

Overall, we found OPIC-assisted investments to be basically developmental in terms of satisfying host-country development desires regarding job creation, technology transfer, and labor and environmental requirements. We did not, however, find the application of congressional development criteria through OPIC's screening processes to have enhanced the development impact of OPIC projects. Given the fact that these investments are wholly investor-initiated, we believe that, at best, OPIC can have only limited influence in enhancing the development aspects of these investments. And given the apparently limited interest within the U.S. business community in investing in many developing countries, we believe that currently OPIC does not have great opportunity to improve the selectivity of its choices for investment insurance and finance projects.

On the other hand, OPIC has made real progress in diversifying its portfolio toward the poorer countries. In the past 2 years, OPIC has conducted active efforts to publicize its services to those investors who are potentially interested in these countries and to seek out, in some countries, possible areas for new U.S. investments. For these poorer countries, and for small business investors, it appears that the availability of OPIC services does have some importance as a factor in the decisions of potential investors. And in this sense, by neutralizing perceived political risks and by offering some financing, OPIC has probably enabled additional investments to be made in the poorer countries, for whom capital inflows in themselves are highly desired.

The decision as to whether a proposed investment fits the needs of the developing country depends on that country's definition of its needs and on the range of foreign investments it is willing to accept as meeting these needs. In this

respect, it is the embassy and AID mission staffs--and not principally OPIC--which, by their frequent interactions with developing-country officials, are in a position to discuss the development needs of these countries and the role of foreign investment in fulfilling them. The coordinated U.S.-Egyptian effort is one example of this kind of more active embassy and AID role in cooperating with host-country governments to minimize obstacles to investment and to seek positive U.S. investments. For U.S.-investors, the obstacles to investment overseas often relate more to the problems of host-country business environments 1/ than to political instability. Thus, a concerted U.S. and host-country effort to minimize these may be equally important as OPIC in helping attract additional U.S. investments to developing countries.

Although we do not believe OPIC has yet demonstrated a real need for removal of the \$1,000 restriction, we believe this restriction could be removed without changing the OPIC focus on the poorer countries, as long as (1) OPIC management continues to emphasize and improve its finance, investor mission, and feasibility study programs, focused on the poorer developing countries; (2) OPIC staff confine their active efforts, including travel and investor missions, to promoting and handling investments in the poorer countries; (3) OPIC management observes prudent risk management standards in approving increased numbers of projects in the most advanced developing nations; (4) the OPIC Board exercises vigilant scrutiny of operations in these more-advanced countries; and (5) IDCA, AID, and U.S. embassy staffs give greater attention overseas to helping identify and facilitate good investment opportunities in the poorer developing countries.

We recommend that the Director of IDCA and the President of OPIC develop and implement (1) policy guidelines, and (2) a system of closer coordination with the Departments of State and Commerce to

--identify in the poorer developing countries more development-oriented and financially attractive investment opportunities;

--help resolve problems encountered by U.S. businesses in the investment process; and

1/Problems can be frequent bureaucratic delays; lack of centralized sources of information on local markets, standards, and investment regulations; and local corruption.

--assist interested developing countries to
improve their foreign investment screening
and approval processes, priorities, and
promotion efforts.

Such actions, we believe, will also benefit OPIC in helping to
screen proposed investment projects.

CHAPTER 3

U.S. TRADE AND ECONOMIC BENEFITS

Much debate persists over the extent to which OPIC-supported investments stimulate U.S. trade and economic benefits, as well as provide development benefits. Questions which have arisen on this subject concern (1) the methods and certainty with which OPIC calculates export benefits from its projects, (2) the importance of financial flows back to the United States resulting from these investments, and (3) the desirability of giving OPIC an explicit, statutory, export-promotion mandate in addition to its present development objective.

From our review we found that:

- OPIC assertions that its insured or financed investments contribute significantly to U.S. exports depend almost entirely on investor representations. OPIC has rarely attempted to verify these claims; verification of all investor claims would be difficult because investor procurement data is not always centrally available from U.S. investors or their overseas affiliates.
- Calculating U.S. export benefits from U.S. foreign investments involves considerations more complex than simple calculations of U.S. procurement for these investments--such as figuring displaced U.S. exports and possible long-term trade effects of investment-related technology transfers, and comparing U.S. exports stimulated by U.S. investments with other industrialized country exports stimulated by these investments.
- U.S. foreign investments do, in particular instances, stimulate U.S. exports but little information is available as a guide to which kinds of investments promote U.S. exports. Each investment needs to be examined independently for U.S. trade effects.
- Financial flows back to the United States from foreign investments have a positive effect on the U.S. economy.

--OPIC does not, in our view, need an explicit, statutory trade mandate because (1) Board of Director policy allows OPIC to support export-oriented investments on a case-by-case basis and (2) possible conflicts which might arise between country development objectives and U.S. export interests need to be explored.

OPIC EXPORT CLAIMS AND RATIONALE

OPIC states that the 563 projects it supported in the past 5 years (1975-79) are expected to generate more than \$4 billion in U.S. exports and to create about 52,484 new U.S. jobs. OPIC support for these figures comes principally from investor representations on the application forms.

OPIC statements that OPIC-supported investments lead to significant U.S. exports are also based on international trade statistics on intra-firm transactions. OPIC notes that about 33 percent of all U.S. exports go overseas to affiliates or subsidiaries of domestic companies. This figure is supported by the U.S. Department of Commerce and U.N. statistics. OPIC also maintains that U.S. investors abroad tend to look to American sources of supply for the materials and equipment they need to operate their foreign enterprises. Further, OPIC states that increased private-sector growth in the countries hosting OPIC-assisted projects generates a greater demand for U.S. goods and agricultural products and, thus, contributes to growth of the U.S. economy.

Although we do not have evidence that investor representations are inaccurate, we believe that OPIC could do more in attempting to selectively verify investor representations on procurement data. We also believe that OPIC should be more attentive to the fact that other industrialized nations benefit significantly from procurement for U.S. investments overseas and to the possibility that investment-related technology transfers can adversely affect U.S. trade competitiveness. Investment overseas does not in itself mean U.S. procurement exports; and several other important factors help determine whether U.S. investments lead to U.S. exports. Each investment must be examined independently to assess potential U.S. export benefits.

Heavy OPIC reliance on investor-provided data

OPIC makes very little attempt to verify the actual U.S. procurement resulting from a given project; it regards the investors' representations as officially binding. If OPIC

somehow finds that an investor has materially misrepresented its business plans and activities, it has the right to demand cancellation of the insurance contract or immediate repayment of any outstanding loan balance.

In each of our 30 case studies, we sought to obtain actual procurement data from the U.S. parent companies and from their overseas affiliates, but we were not able to obtain such information from a number of companies. From the information we obtained, we did not find evidence of major discrepancies between investors' estimated and actual procurement.

OPIC has also made very little attempt to verify investor-provided information on U.S. exports displaced as a result of investments overseas. This is a difficult and wide-ranging task, involving assessments of U.S. investor motivations, prospective host-government policies (such as tariff barriers and local content regulations), international trade flows, and the investment plans of possible third-country investors. We saw only one application which admitted that U.S. exports would, in fact, be displaced; in all of the 30 applications we looked at where U.S. exports are displaced, the investors claimed that these exports would have been displaced in any case by third-country exports or investments. We saw only three instances where OPIC had independently made an effort to check the potential effects of such export displacements.

A number of U.S. firms gave high levels of developing-country tariff protection as reason for investing overseas, thus displacing U.S. exports; yet some host-country officials told us that some investors negotiate the erection of such tariff barriers as a condition for their investment. We found this to have been the case with one investment we studied (in Indonesia).

OPIC's waiving of procurement guidelines

OPIC has waived its U.S. procurement guidelines on a case-by-case basis where overall financial returns to the United States are positive or where development benefits were projected to be significant. According to these guidelines, which relate to both U.S. procurement and to U.S. balance-of-payment effects, "insurance will be denied in cases where the U.S. investment funds to be insured are to be spent substantially on procurement in rich third countries." The term substantial is defined as exceeding 50 percent of the U.S. investor's contribution to the project. Cases where these guidelines are not met are referred to the Vice President for Insurance for final determination. Regarding the effect on

the balance-of-payments, the guidelines state that for each project, consideration will be given as required by the Foreign Assistance Act of 1961, as amended (Section 237 (k)), to the "possible adverse effect of the dollar investment under such insurance or guaranty upon the balance-of-payments of the United States."

As discussed earlier in this report (ch. 2), OPIC has not really had any year-to-year ceiling on its insurance authority ^{1/} or any great backlog of eligible investment proposals. Consequently, OPIC has not had to be highly discriminating in selecting investments to support--that is, OPIC has not had to choose among the best of numerous acceptable projects to insure, in terms of both development and U.S. trade benefits.

Of the 30 investment cases we studied in detail, five did not meet OPIC's basic procurement guidelines. Two of these were in Taiwan, and one each were in Egypt, Indonesia, and Nigeria; none were in Haiti or Honduras. In these five cases, representing a total of about \$36 million of insured U.S. investments, rich third-country procurement over a 5-year period exceeded U.S. procurement by about \$160 million. When financial returns back to the United States are figured in, however, the net U.S. balance-of-payments effect for these investments was almost \$50 million (although one project did also have an adverse 5-year balance-of-payment effect).

For one of these five projects, OPIC apparently did not notice that it did not meet its procurement guidelines. For the other four, OPIC provided the following justifications for these waivers:

--U.S. standards for the product (in this case voltage and paper requirements for copying machines) are different from developing-country standards.

--The country needed high-technology equipment manufactured by the large U.S. investor's European subsidiary but not yet manufactured by the investor's U.S. operations; there were also "very material benefits" for the developing country.

^{1/}For fiscal years 1980 and 1981, the Office of Management and Budget indicated that OPIC limit direct loans to \$5 million and that it limit OPIC loan guaranties to \$200 million in fiscal year 1980 and \$120 million for fiscal year 1981.

--U.S. effects were "strongly positive"
(exports of \$14 million).

--The needed equipment (valued at \$31.7 million) was financed by European and Japanese suppliers' credits, and the developed-country government either required competitive international bidding or chose the supplier itself.

Procurement benefits for industrialized countries

Under present OPIC guidelines, it is possible for developed countries, such as Japan and the European Community states, to export as much or more to U.S. investments overseas than the United States exports to them. This is because OPIC procurement guidelines cover only initial project procurement, not procurement of follow-on production inputs, and because OPIC can waive these if there are positive financial returns to the United States or significant development benefits. We found significant export benefits going to other industrialized countries in three of the six countries we chose--Taiwan, Indonesia, and Egypt. Together, other industrialized countries exported about \$50 million more to our case study investments in these three countries than did the United States, although, for the six countries together, total U.S. export benefits exceeded foreign export benefits due, largely, to a single agribusiness investment in Nigeria. (See table 3-1.)

One reason for this appears to be that most OPIC-supported investments in these countries are large U.S.-based multinational firms with numerous production plants overseas. Because of the distance of these countries from the United States, it is usually cheaper to ship equipment and parts from their Japanese or European subsidiaries than from the United States. We were told that other reasons for such third-country procurement are that: such countries offer better export financing terms; U.S.-made equipment or parts may not meet local product standards; and needed procurement is not available in the United States.

OPIC's ability to influence the procurement decisions of potential investors, particularly of large companies with worldwide production subsidiaries, is very minimal. Many of these companies, we believe, would be more likely to withdraw their insurance applications than to reduce their financial returns.

Table 3-1

Comparison of U.S. and Industrialized-Country Procurement Benefits:
A Summary of 30 Case Studies

<u>Country</u>	<u>U.S. Procurement</u>		
	<u>Initial</u>	<u>5-year production inputs</u>	<u>5-year total</u>
Egypt	\$9,454,000	\$14,990,000	\$ 24,444,000
Indonesia	6,365,000	6,075,000	12,440,000
Taiwan	1,501,515	108,322,000	109,823,515
Nigeria	3,400,000	156,744,164	160,144,164
Haiti	1,445,700	3,310,056	4,755,756
Honduras	762,125	17,719,000	<u>18,481,125</u>
Total			<u>\$330,088,560</u>
	<u>Industrialized-Country Procurement</u>		
	<u>Initial</u>	<u>5-year production inputs</u>	<u>5-year total</u>
Egypt	\$19,760,000	\$13,495,000	\$ 33,255,000 a/, b/
Indonesia	35,942,000	17,025,000	52,967,000 a/, b/, and c/
Taiwan	13,349,420	96,005,000	109,354,420
Nigeria	-	-	64,670,000
Haiti	350,000	2,500,000	2,850,000
Honduras	100,000	-	<u>100,000</u>
Total			<u>\$263,196,420</u>

a/Likely to be underestimated because the amount of 5-year production inputs was not known for one project involving substantial initial procurement.

b/Some of the above figures include procurement from countries likely to be, but not specifically stated as, rich third countries.

c/One project included some procurement from Singapore.

In addition, most OPIC investors we talked to, whether large or small, emphasized that procurement decisions made at their foreign plants are based on important factors outside OPIC control, such as (1) availability of U.S. export financing competitive with other rich-country export financing; (2) U.S. tax laws which make it prohibitively expensive to support U.S. managers overseas who are more likely to be familiar with U.S. suppliers and the quality of U.S. products than would foreign managers; and (3) the uncertainties the U.S. Foreign Corrupt Practices Act creates for U.S. investors doing business overseas.

Difficulties in assessing trade effects of technology transfers

Foreign direct investment transfers capital abroad and is a major vehicle for international transfers of technology by the U.S. private sector. Because the United States has a comparative trade advantage in high-technology and capital-intensive goods, the transfer of technology and capital abroad may tend to reduce this advantage over time. The President's 1980 study on U.S. export trade policy ^{1/} states that the effects of foreign investment on U.S. trade and production are of growing importance because investment in the production capacity of U.S.-owned foreign affiliates is increasing more rapidly than investments in U.S. domestic enterprises. This study, however, also cautions that there is currently no conclusive correlation between technology transfers resulting from overseas investments and U.S. export performance.

Of our country studies, Taiwan is the most likely to become a competitor to the United States in high technology products. Taiwan has recently intensified its strategy of promoting industries on the leading edge of technology and is now in the process of completing a science park designed to attract advanced industries such as energy, aeronautics, electronics, precision instruments, and laser optics. Taiwan is also reported to be carefully screening park applicants and accepting only the most sophisticated products. Taiwan is reported also to prefer U.S. to Japanese companies because the Japanese tend not to share technology. Further, Taiwan has established a quasi-governmental Industrial Technology Research Institute (ITRI) to purchase, study, and adapt technology, and then pass it on to private companies.

^{1/}The President's Study on U.S. Export Trade Policy, "Study of U.S. Competitiveness." July, 1980.

Given the difficulties of determining these effects on U.S. competitiveness and OPIC limitations in screening and monitoring proposed investments, we do not believe OPIC has enough information to state with certainty that the technology transfers resulting from the investments they support do not have an effect on U.S. competitiveness. Even the U.S. embassy staffs in the countries we visited told us they generally do not have time to monitor possible technology transfers which affect U.S. competitiveness. In fact, several investors we contacted told us that their investments incorporated their most advanced technologies.

We are not suggesting that OPIC or U.S. embassy staffs can monitor all U.S. investments for possibly valuable technology transfers. We do believe, however, more effort needs to be made in this area by OPIC and U.S. embassy staffs, because so little is known at present.

POTENTIALLY SIGNIFICANT FINANCIAL FLOWS

Many OPIC-supported projects involve no U.S. exports over the first 5 years and depend solely on financial flows back to the United States for positive U.S. effects. These financial flows consist of such items as repatriated earnings and payments of interest, royalties, and fees. Of our 30 cases, 6 depend solely on such financial returns. Three of these cases were those mentioned earlier where OPIC procurement guidelines had been waived; the others were a banking operation, an electronic equipment servicing operation, and an electronic assembly plant. These 6 investments--depending solely on financial flows to the United States for positive U.S. effects--did have relatively higher financial returns than the total group of 30 investments.

We attempted to verify financial flows and U.S. procurement data for our case studies, but we did not obtain sufficient information from the firms to draw conclusions. Generally, however, overall statistics show that financial flows from U.S. direct investments overseas do contribute significantly to the U.S. balance-of-payment position.

These flows are included under the services component of the current account. The balance on the services account as a whole has been in surplus for a number of years and has offset much of the current account deficits caused since 1973 by the unfavorable balance of merchandise trade. For example, the services surplus of \$45 billion in 1979 more than offset the \$29 billion deficit in merchandise trade that year.

Financial returns on U.S. foreign direct investment account for a very substantial portion of this services surplus--about 80 percent in 1978 and 1979.

Conforming generally to the pattern of U.S. investments overseas, ^{1/} however, only about one-third of these financial flows in 1978-79 came from investments in developing countries; the rest came from developed countries.

PROPOSAL FOR GIVING OPIC A TRADE MANDATE

In view of OPIC claims that U.S. foreign investment provides benefits for development and for the U.S. economy--particularly for U.S. exports--an interagency task force was set up in the spring of 1980 to consider a proposal to request from the Congress an explicit, statutory trade-promotion function for OPIC. The task force and the OPIC Board of Directors approved this proposal in May 1980. At the same time, the OPIC Board of Directors approved the addition of a trade exception to the \$1,000 per capita GNP restriction for projects, promising "significant net U.S. trade benefits." No projects had been approved or denied under this exception as of the end of October 1980. No legislative action has yet been taken on this proposal.

Only the Departments of the Treasury and Labor opposed a legislative change giving OPIC a specific trade mandate. Labor favored OPIC considering the impact on U.S. exports in its analysis of proposed projects, but opposed a statutory change. The Treasury Department opposed the inclusion of a specific trade function for an agency primarily concerned with fostering development.

The value to the United States of giving OPIC a trade function depends importantly on whether OPIC is also to be allowed to routinely support projects in countries with per capita incomes above \$1,000, because these tend to be better markets for U.S. products. As the Deputy Secretary of Commerce noted, "Without such action [in removing this restriction] there would be little discernible difference in trade benefits accrued from current OPIC operations." In May 1980,

^{1/}At the end of 1979, 72 percent of the stock of U.S. direct investment abroad was in developed countries and 25 percent was in developing countries. (The remaining 3 percent is listed as international and unallocated.)

the task force and the OPIC Board of Directors also approved the legislative removal of this present \$1,000 per capita GNP restriction.

Members of the task force told us that support for the OPIC trade function was based on the general logic of selected U.S. investments leading to U.S. exports, rather than on hard, independent evidence. The State Department noted,

"The evidence* * *is insufficient to establish whether there is an overall positive--or negative--correlation between U.S. foreign investment and trade. However, it is possible to identify particular foreign direct investments which would have a beneficial effect on U.S. production and employment."

We believe the United States needs to maintain its competitiveness with other industrialized countries exporting to developing countries and that OPIC's specifically targeted export programs should be continued and refined. OPIC does not, in our opinion, need an explicit, statutory trade mandate because (1) it already supports export-oriented investments on a case-by-case basis and (2) it needs to explore possible conflicts which might arise between country development objectives and U.S. export interests.

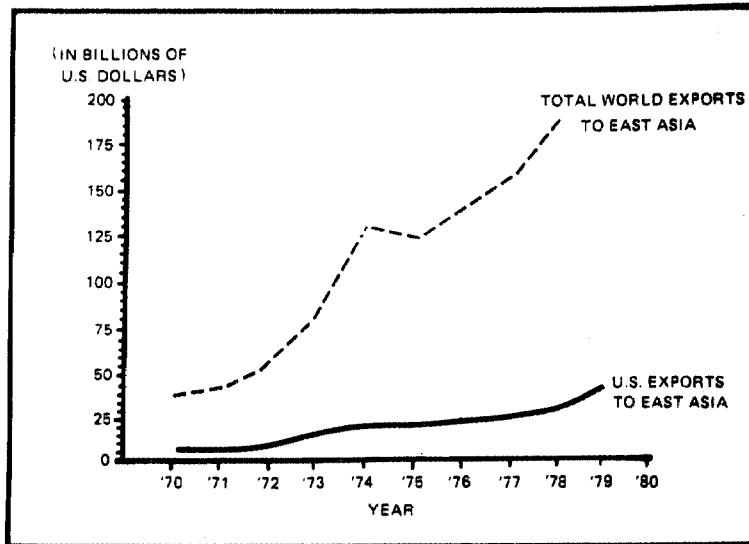
Growing importance of developing-country trade to the United States

In 1978, developing countries accounted for about 38 percent of U.S. exports, including the OPEC countries' 12-percent share of U.S. exports, and are considered to be the world's fastest expanding markets. Although U.S. exports to these countries increased from \$10 billion in 1970 to \$67 billion in 1979, the U.S. share of industrialized country exports to these countries fell from 30 percent in 1974 to about 27 percent in 1978. For East Asia in particular, Charts 3-1 and 3-2 depict the striking relative loss of U.S. competitiveness in East Asian markets.

At the end of 1978, the United States had a trade deficit with both the non-OPEC and the OPEC groups of developing countries. Nigeria alone accounted for 21 percent of the total cumulative U.S. trade deficit of \$135.1 billion between 1973 and 1979, primarily because of U.S. imports of Nigerian crude oil. Yet the United States currently provides only 7 percent of Nigeria's imports, compared to a 62-percent share for the European countries. Thus, the need for the United States to expand exports to these countries is clear.

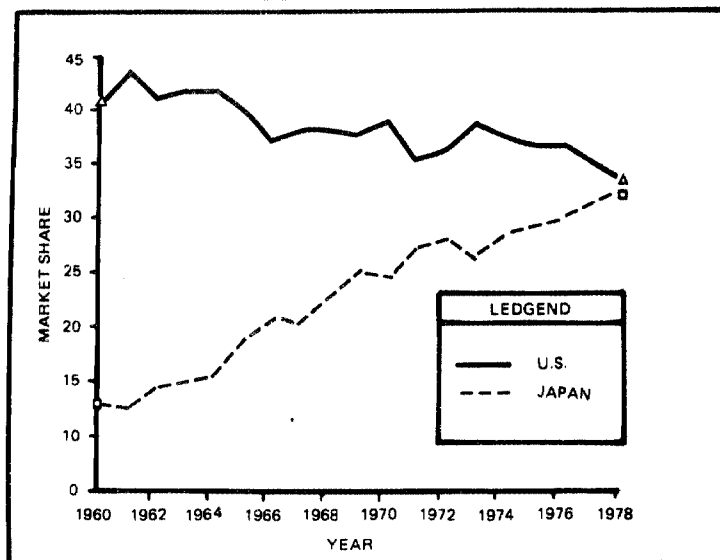
The role which foreign investment plays in stimulating such trade, however, is agreed to be important only in some instances. As noted earlier, several factors affect the export competitiveness of the United States, and the role of foreign investment should be placed within this larger perspective.

CHART 3-1
EAST ASIA AS A U.S. EXPORT MARKET, 1970-1979



SOURCE: U.S. DEPARTMENT OF COMMERCE

CHART 3-2
U.S. AND JAPANESE SHARE OF DEVELOPED COUNTRY EXPORTS TO EAST ASIA, 1960 to 1978



SOURCE: U.S. DEPARTMENT OF COMMERCE

Other industrialized country activities
in promoting foreign investment

In all our case-study countries except Haiti, we encountered reports that other industrialized nations such as Japan and the European Community have recently been more active than the United States in pursuing investments in these countries. The sources of these reports ranged from host-government officials, U.S. businesses in-country, and U.S. embassy economic/commercial officers, to the local U.S. Chamber of Commerce.

In Indonesia, for example, investors from Japan and Hong Kong have been much more active than U.S. investors in pursuing investment opportunities. New U.S. investment in 1978 amounted to a total of only \$5.9 million in two projects, compared with Japanese and Hong Kong investments each totaling over \$30 million in 10 projects. Expansions of existing U.S. investments totaled \$69.2 million in 1978; Japanese expansions totaled \$105.6 million. In Egypt, we were told that U.S. investors have not been as persistent or as willing to take a long-term profit perspective as European investors have been. In Taiwan, where the United States has long been the leading source of investment capital, it was reported that Europeans are seeking to increase their investments significantly, and Taiwan is promoting such investments to reduce its dependence on the United States. Even in Honduras, where U.S. private investment was reported to account for 86 percent of total foreign investment, we were told that the Japanese have recently become very aggressive in pursuing foreign investments and are expanding rapidly, especially in construction contracts. In late 1979, the Deputy Assistant Secretary of State for East Asian and Pacific Affairs noted with respect to investment in Southeast Asia,

"The Germans, Japanese, and others have succeeded in developing production facilities which have in turn given them marketing advantages in the region which we have simply missed."

Not all our case-study countries kept ready statistics on sources of investments in their countries, but Appendix III provides basic information for those which did have some statistics. Reasons given for this relative reluctance of U.S. business to invest overseas included

--shortage of competitive U.S. export financing;

- U.S. tax laws that make the placement of U.S. executives abroad too expensive;
- U.S. Foreign Corrupt Practices Act;
- lack of a sense of need to invest overseas and lack of aggressiveness on the part of U.S. businessmen;
- impatience of U.S. businessmen in tolerating the delays and frustrations of doing business in many developing countries;
- colonial history and trade ties facilitating European investments in Africa and the Middle East; and
- proximity of Asia to Japan and Africa and the Middle-East to Europe, affecting travel and transportation costs.

We also encountered reports that other industrialized country governments do more to support their investments overseas than the United States does. In our report on the competitiveness of U.S. export financing 1/, we did find some industrialized nations providing better support for exports than the U.S. Government does using Eximbank. Regarding the OPIC-type programs of the other 17 industrialized nations which offer these 2/, Table 3-2 compares these programs and indicates that some other countries' programs do have a stronger export orientation than OPIC. (See table 3-2, pp. 37 and 38.)

1/"Financial and other Constraints Prevent Eximbank from Consistently Offering Competitive Financing for U.S. Exports," ID-80-16, Apr. 20, 1980.

2/Australia, Austria, Belgium, Canada, France, the Federal Republic of Germany, India, Israel, Japan, Korea, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, the United Kingdom.

TABLE 3-2

Comparison of U.S. and Other Industrialized Countries
Investment Insurance Programs

Basic objectives of investment insurance programs

--Seven have as their primary goal benefits to their domestic economies from exports, financial returns, and raw material supplies.

Belgium	Israel
Canada	Japan
France	Korea
India	

--Two have host-country development as the sole objective.

Norway
Sweden

--Nine have host-country development as the primary goal with benefit to their domestic economies a secondary consideration.

Australia	Spain
Austria	Switzerland
Federal Republic of Germany	United Kingdom
Netherlands	United States
New Zealand	

Location of projects eligible for insurance

--Five programs offer insurance only for investments in non-Eastern bloc developing countries.

West Germany
Korea
Netherlands
Norway
Sweden

--Four offer insurance only for investments in developing-countries, including those in the Eastern bloc.

India
Switzerland
United Kingdom
United States

--Nine offer insurance for investments in all countries, whether or not the country is usually considered to be "developing."

Australia	Israel
Austria	Japan
Canada	New Zealand
France	Spain
India	

Rates and coverage (rates are annual rates) for insurance

--Only two countries have rates which approach the magnitude of OPIC's 1.5 percent.

Israel (1.2 percent)
Switzerland (1.25 percent)

--Nine countries have rates which fall in the range of .75 percent - 1.0 percent.

Australia	1.0 percent	
Belgium	.75 percent	- .8 percent
Canada	1.0 percent	
France	.7 percent	- 1.0 percent
India	1.0 percent	
Netherlands	.8 percent	
Norway	.8 percent	
Spain	1.0 percent	
United Kingdom		

--Four countries have rates which fall in the range of .5 percent - .74 percent.

Austria	.5 percent
West Germany	.5 percent
Japan	.55 percent
Korea	.55 percent

--All of the countries cover the same risks--inconvertibility, expropriation, and war risk--as does OPIC. In addition, Japan and Switzerland also insure against commercial risks.

Source: OPIC

OPIC's targeted export programs

Over the past 2 years, OPIC has placed a higher priority on export development and has adopted specific programs more directly geared to this objective. As noted earlier, OPIC policy supports export-oriented investments (which also meet development objectives) in countries above the \$1,000 per capita GNP restriction. These targeted programs include

- strengthening the operations of overseas distributors for U.S.-made machinery equipment and other products;
- supporting agricultural processing activities that will involve imports of raw foodstuffs from the United States;
- offering specialized coverage for U.S. engineering and construction companies;
- increasing its overseas investment mission activities in the poorer developing countries; and
- cooperating with the Departments of Commerce and Agriculture, the Eximbank, and the Small Business Administration in conducting export and investment seminars around the United States.

Our case studies included three investments in distributorships and marketing and servicing operations, although OPIC cites only one of these as part of its new program. The differences between these cases, as illustrated below, highlight the need for more thorough OPIC analysis of the kinds of products and services likely to lead to increased U.S. exports.

- One investment is a U.S. truck distributor in Honduras receiving OPIC financing for expanding his facilities for providing service and parts for these trucks. This distributor was already selling about 70 percent of the total trucks sold in Honduras--all of the trucks originating from a single U.S. plant in Pennsylvania. His foreign competitors in Honduras now include Japanese and German firms. Improving his business servicing

facilities should, in our opinion, help maintain his position in the face of this competition. However, the key role of competitive export financing in typically credit-short developing countries was also demonstrated in this case, with this U.S. business losing a 12-truck sale to a Venezuelan company which could provide better terms.

--The second investment of this general type was the establishment of shops for marketing, servicing, and operating copying machines in Egypt. Egyptian imports of copying machines are significant in this case, but all originate from the European subsidiary of the U.S. company, not from the U.S. company itself. This is reported to be due to the differences in U.S. and Egyptian product standards.

--The third investment was for a company in Egypt providing supply and installation servicing of marine electronic and navigational equipment for ships using the Suez Canal and Egyptian ports. The investor is a large U.S. communications firm with worldwide operations. In this case, also, there are virtually no U.S. exports to the Egyptian company; all the equipment the Egyptian firm imports is from European-based suppliers, including--but not limited to--the European affiliate of the U.S. company.

Another three of our case studies were agriculture-related investments involving exports of U.S. raw foodstuffs. Because the United States is highly competitive in agricultural exports, overall, and the Agriculture Department has active export promotion programs, it is difficult to separate the U.S. exports stimulated by OPIC-supported investments from those which would have occurred if the U.S. investment had not been made. Nevertheless, it appears that U.S. investments in agricultural processing operations in developing countries are likely to have positive U.S. export effects as illustrated below--particularly if close OPIC-Department of Agriculture coordination takes place.

--The most significant of our agricultural export-oriented cases was a \$10-million flour milling investment in Nigeria, which was expected to have a \$136 million positive

effect on the U.S. balance-of-payments over 5 years (including calculation of displaced U.S. flour exports) as a result of U.S. wheat and corn exports. OPIC states that if non-U.S. investors had made this investment instead of U.S. investors, wheat "might not be purchased exclusively from the U.S."

--The second case involved the production, processing, and sale of animal and poultry feeds in Taiwan. This total U.S. investment of \$394,620 is expected to result in annual U.S. raw material exports valued at \$11 million.

--A third case study involved a \$2 million investment in the improvement of grain off-loading facilities in Egypt. This facility has greatly increased the efficiency of grain off-loading in Egypt, thus reducing costs for the Government of Egypt, but it is not clear that the investment directly led to increased U.S. grain exports (although it did lead to an expected \$3 million in U.S. exports of off-loading equipment over 5 years.)

OPIC also offers specialized coverage for engineering and construction companies and to certain nonservice contractors. OPIC insures U.S. contractors against losses caused by arbitrary drawings from standby letters-of-credit, thereby enabling U.S. companies to meet third-country competition in overseas markets. Without such protection, U.S. contractors would have to include a large amount of self-insurance in their bids or run the risk that an unjustified drawing-of-credit could involve high economic loss. Engineering and construction projects can be an important source of U.S. exports, because U.S. designs and the use of U.S. construction companies usually result in procurement of U.S. products. None of our investment case studies involved these types of specialized coverage. OPIC's investment mission activities and cooperation with other U.S. export-oriented agencies are discussed in Chapter 5.

Possible conflicts between OPIC's
development and trade objectives

Because OPIC's primary purpose is developmental, the possible conflicts between OPIC's existing mandate and any potential U.S. trade objective need to be explored. The most obvious of these possible conflicts relate to the need for developing countries to conserve and increase their available foreign exchange. To the extent that U.S. investments lead to additional developing-country imports, rather than just the displacement of existing imports from other industrialized countries, U.S. trade benefits would not be consistent with this major development priority. The same would be true if the U.S. investment gave preference to U.S. procurement rather than promoting the use of local suppliers and indigenous materials. In view of the very serious debt problems of so many non-oil producing developing countries, these countries are not likely to welcome U.S. efforts to increase exports to them.

To the extent that U.S. export strength is in high technology, capital-intensive goods, and U.S. investments lead to exports of these to the developing countries, another major development priority--labor-intensive production--would be adversely affected. As noted in Chapter 2, many OPIC investments we reviewed are not highly labor-intensive, nor was the use of appropriate technology a major concern of the investing companies.

In addition, to the extent that U.S. investments involve the export of higher-priced consumer goods to developing countries, the development objective of assisting the poorer groups would not be served. In Egypt, for example, it is reported that the increasing appearance of middle-class and luxury consumer goods has caused friction within Egyptian society and has fostered a belief that the middle and upper classes may be benefiting more from the Camp David peace accord than the vast number of poorer people.

Efforts to promote U.S. exports through U.S. investments overseas may also conflict with stated U.S. and developing-country objectives to promote intra-regional, developing-country trade. The availability of needed imported goods from the United States, combined with any OPIC export orientation, may conceivably preempt these efforts to seek and develop such trade ties. In addition, financial returns to the United States--while benefiting our balance-of-payments--may mean that such profits and fees are not being reinvested in the developing countries and, thus, represent capital flows out of these countries.

In the process of approving a trade function for OPIC, the interagency task force and the OPIC Board of Directors did not fully consider these possible contradictions between development and trade objectives. These groups basically appeared to rely on OPIC management to adequately screen proposed projects. We believe these possible conflicts should be discussed and analyzed more thoroughly and detailed guidelines should be established to identify such potential conflicts in proposed projects. Much greater AID participation would be needed than has been the case so far.

CONCLUSIONS AND RECOMMENDATIONS

The OPIC legislative mandate should not, in our opinion, be revised to give it an overall trade objective, even though we believe OPIC does have potential to serve a U.S. trade promotion objective together with its primary development objective. Our opinion is based on (1) the absence of better information on which kinds of foreign investments are most likely to lead to U.S. exports; (2) the possible conflicts that may arise between country development objectives and U.S. export interests; (3) the fact that OPIC presently has authority on a case-by-case basis to support trade-oriented investments, even in the more advanced developing countries; and (4) the need for the Congress to consider this matter in the context of overall U.S. export policy. We also believe OPIC's present strategy of specifically targeting certain types of export-oriented investments is the most appropriate one. Even now, more time, experience, and selectivity are needed for this potentially fruitful approach to show clear export results.

With regard to OPIC's accuracy in calculating export benefits from its projects, we believe that checking investor-provided estimates of U.S. procurement against actual U.S. procurement is likely to be quite time-consuming for both OPIC and the U.S. investors because we found such data not always centrally available from U.S. investors or overseas affiliates. We believe OPIC should make a greater attempt to monitor U.S. and development effects of the investments it supports, but we do not believe it is necessary to require OPIC verification of all investors' export claims (although this would be desirable initially for OPIC "trade exception" cases.) Instead, OPIC--with other export-related U.S. agencies--should improve its knowledge about the kinds and areas of U.S. foreign investments which lead to significant U.S. exports to refine its ability to support targeted, export-oriented investments.

To provide a more effective means of identifying and encouraging U.S. foreign investment leading to increased U.S. exports, we recommend that the President of OPIC, in consultation with the Director of IDCA,

- undertake, in conjunction with the primary U.S. export-oriented agencies, a concerted effort to further identify the specific areas and means by which U.S. foreign investments can significantly stimulate U.S. exports;
- improve OPIC project selectivity, by requiring that more consideration be given in the OPIC analysis of proposed "trade exception" cases to: (1) strengthening its procurement requirements to include production inputs as well as initial procurement; (2) comparing U.S. with other industrialized nation trade benefits from U.S. foreign investments; and (3) examining the long-term effects of possible technology transfers; and
- establish a more active role for AID in (1) screening trade exception cases for possible conflicts with development objectives and (2) devising guidelines and criteria for analyzing these cases.

CHAPTER 4

EFFECT OF OPIC-SUPPORTED INVESTMENTS ON U.S. EMPLOYMENT

Intense controversy surrounds the issue of whether U.S. foreign investments result in U.S. job losses from additional imports and displaced exports or in job gains from new exports resulting from these investments. U.S. firms investing overseas, academic experts, and labor groups concerned with possible job losses cannot agree on the appropriate basic assumptions to be made in studies of this subject.

OPIC maintains that its analysis of the U.S. effects of investments it insures or finances effectively screens out investments which might result in job losses. Although we did not find direct relationship between the overseas investment and U.S. job losses in our case studies, we did find clear inadequacies in certain aspects of OPIC screening and monitoring processes.

In screening investments, OPIC places heavy emphasis on investor-supplied data; does not routinely consult either the Department of Labor or labor unions; and limits its analyses to short-term indications of adverse U.S. effects. OPIC has not routinely monitored the effects of its investments, although it recently initiated a new monitoring effort which is designed to be more systematic.

INVESTMENT SCREENING PROCESS

The OPIC investment screening process has not assured that labor views are considered in determining the U.S. employment effects of proposed investments. The screening process consists of both preliminary and full analyses of the U.S. economic and employment effects of most proposed investments (the exceptions being preliminary reviews of projects in industries not considered sensitive and under \$1 million). The preliminary review, conducted at the time of initial project registration, consists of screening proposed investments in sensitive industries for indications of adverse U.S. effects. If no negative effects surface at this initial screening stage, the investor submits an application for insurance. Investor-supplied estimates of all aspects of the investment, including the amount of project-connected procurement, destination of export sales, and financial returns, form the basis for the full analysis.

In an effort to balance investor-supplied data with information obtained from other sources, OPIC solicits the views of some Government and non-Government experts, but has not routinely consulted either the Department of Labor or labor unions on the U.S. employment effects of proposed projects. OPIC officials stated that Labor Department officials do not tend to have sufficiently detailed information, particularly for high-technology industries, to be useful data sources on individual investment proposals. Commonly, OPIC contacts U.S. industry experts at the Commerce Department and the International Trade Commission. In our opinion, the failure to consult with labor is a major inadequacy of the OPIC screening process. We did not find, for example, that OPIC knew whether or not any of the U.S. employees of companies whose overseas investments carry OPIC insurance or financing had applied for, or received, trade adjustment assistance. Department of Labor trade adjustment assistance files contain useful and detailed analyses of specific industry trends which would enhance OPIC sectoral analyses and the investment screening process. OPIC officials stated that they are now consulting more frequently with labor officials.

OPIC policies and guidelines designed to provide a framework for conducting sector analyses do not specifically cover all sensitive industry sectors. For example, OPIC has not established specific policies or guidelines for projects in the sensitive electronics and leather goods industries (although it has done so for textiles and certain agribusiness projects, including citrus fruit and palm oil). In screening electronics projects, OPIC refers to consultant studies prepared for OPIC. Existing OPIC industry policies and guidelines, formulated in accordance with a provision of the OPIC legislation, generally do reflect recognition of the factors causing adverse U.S. effects.

OPIC sectoral analyses show that although OPIC consistently identified and recognized the potential for (and, in some cases, the projected existence of) adverse effects of individual projects under consideration, OPIC does not always thoroughly examine the long-term cumulative effects of its insured projects. A particularly critical need exists for an in-depth analysis of OPIC-insured electronics projects, given (1) recent concern over the tenuously competitive position of U.S. electronics manufacturers, both domestically and internationally; and (2) the volume of trade adjustment assistance petitions submitted to the Labor Department, resulting in payments to workers adversely affected by electronics imports. Although the consultant's electronics industry study attempted to identify the kinds of electronics investments OPIC should not support, each investment proposal does not receive such

in-depth analysis. In at least one of our investment case studies, OPIC primarily relied on an investor's letter denying that it was a runaway plant, as assurance that U.S. jobs would not be directly affected.

An OPIC official told us that approximately four times a year, the OPIC staff visits the U.S. headquarters of selected investors to discuss the U.S. effects of proposed investments with company and labor union officials. We believe these visits, particularly those with labor union and local community officials, have significant potential for revealing adverse U.S. effects and should be made more frequently by OPIC staff.

MONITORING PROGRAM

The OPIC monitoring program consists of sending letter questionnaires to selected investors and visiting overseas plant sites. These efforts, however, have not been carried out either in a sufficiently thorough or consistent manner to assure that no adverse U.S. employment effects have occurred. OPIC monitoring weaknesses have concerned us in our two prior reviews of OPIC. Recent OPIC efforts to intensify its monitoring, however, may improve OPIC knowledge about its projects, as long as results are fully analyzed.

During the period covered by our review, OPIC sent letter questionnaires to selected investors in sensitive industries, such as electronics, requesting post-investment updates of information provided on the insurance applications. However, OPIC could not tell us what percentage of total investments had been surveyed or what the response rate had been, nor had they formally analyzed the responses received.

During March and April 1980, OPIC launched a new monitoring effort, designed to fully analyze 55 OPIC-insured projects; the data collection and analyses were expected to take 10 months to complete. Of the selected projects, 27 were based on a random sample; 7 were non-random and were chosen because they appeared to have clear benefits to both the host-country and to U.S.-employment levels; the remaining 21 were potential problem projects. We were told that the data obtained in 1977 and 1978 would also be incorporated into the analyses of data collected in 1980.

OPIC on-site monitoring is limited and in most cases is carried out by OPIC insurance and finance officers, who travel abroad for purposes other than monitoring. These officers verify that facilities have indeed been constructed, and they discuss operations with plant managers. Of our 30 case study

projects, OPIC staff members had visited approximately 8 for monitoring or related purposes. OPIC monitoring so far, has focused on the U.S. effects of the investments rather than on development benefits.

LABOR OPPOSITION TO OPIC

Labor unions are uniformly opposed to OPIC, to overall U.S. foreign investment, and to U.S. Government policies which encourage foreign investment, because these factors contribute to U.S. job losses. The Department of Labor maintains a strong interest in the U.S. employment effects of OPIC-insured investments, and criticizes OPIC for (1) not soliciting its views on the U.S. employment effects of OPIC-insured projects and for (2) shielding investor representations from its review.

The Labor Department and most labor union officials we interviewed assert that OPIC-insured projects in some industries cause net U.S. job losses and that blue-collar job losses particularly prevail. (One labor union official did not support this view, and suggested that new project-related job gains may exceed job losses.) Some labor unions believe that the existence of OPIC contradicts U.S. Government efforts both to revitalize U.S. industry and to reduce unemployment. Most labor union officials we talked to, however, did not have specific criticisms of individual projects insured by OPIC, and they stressed that they have neither the staff nor the time to examine specific proposed OPIC projects.

The labor movement has vacated and left unfilled, a seat on the OPIC Board of Directors because it (1) objects to OPIC; (2) believes that it could not influence this "rubber stamp" Board; and (3) maintains that a labor representative could hurt his or her standing in the labor movement simply by association with OPIC. Both the Labor Department and labor unions advocate changes in those U.S. Government policies, favoring a Government position of neutrality toward U.S. foreign investment.

U.S. BUSINESS COMMUNITY SUPPORT FOR OPIC

The U.S. business community supports OPIC, to the extent that the private sector wishes to do business in foreign markets. OPIC-insured investors support OPIC because they say it (1) consistently serves its investors in a manner relecting

high professional and technical standards, and (2) constitutes a small, but much needed, antidote to U.S. export disincentives.

Concerning overall U.S. foreign investment and the U.S. employment effects issue, the general position of the business community is that U.S. foreign investments preserve jobs and, in fact, increase U.S. jobs by maintaining U.S. product competitiveness and by increasing U.S. exports. Business International Corporation conducts periodic studies and concludes that net employment increases more rapidly among firms with foreign investments than among those without foreign investments. (In contrast, labor unions support research studies finding adverse U.S. employment effects from U.S. direct foreign investments.) One private-sector researcher also suggested that companies with foreign investments are generally more stable--i.e., are less vulnerable to geographical business cycle fluctuations--than those without foreign investments.

SELLING PATTERN OF U.S. AFFILIATES OPERATING IN DEVELOPING COUNTRIES

Overall, statistics indicate that U.S. firms investing in developing countries produce goods primarily for sale to local markets, not for export to the United States. One major exception is the electronic and non-electronic machinery sector, which exports a much higher portion of its overseas production to the United States.

U.S. affiliates' sales to local markets accounted for between 74 and 93 percent of total sales in Latin America, Africa (excluding South Africa), the Middle East, and Asia and the Pacific (excluding Japan, Australia, and New Zealand) from 1974-76. Export sales to countries other than the United States accounted for 4 to 24 percent of total sales, and export sales to the United States accounted for only 1 to 8 percent of total sales.

Asian and Pacific affiliates of U.S. companies in the electronic and non-electronic machinery sector constituted the only group of U.S. overseas affiliates which departed significantly from the above-cited averages. This industry's local sales were well below average (only 34 percent) and declining both absolutely and as a percentage of total sales over the 3-year period. Export sales to the United States were above average (at 29 percent of total sales), but declining slightly

over the 3-year period. However, exports to countries other than the United States were well above average (at 36 percent) and were increasing absolutely.

OUR REVIEW OF OPIC-INSURED PROJECTS IN THREE SENSITIVE INDUSTRIES

In order to analyze the U.S. effects of OPIC-supported investments, we selected from our 30 case studies, 8 projects in the 3 sensitive industries of electronics, shrimp, and leather. The OPIC-insured projects in the electronics industry have the greatest potential for U.S. job losses. All but one of the case studies revealed that OPIC does not routinely seek the views of the Department of Labor or appropriate labor union officials in assessing the U.S. employment effects of proposed projects. Consequently, they may fail to screen out projects which can lead to U.S. job losses.

Electronics

We selected six electronics projects (or project expansions) insured by OPIC between fiscal years 1977 and 1979. Two of the investments were in Haiti, one in Honduras, and two projects were in Taiwan. The sixth project, in Taiwan, had been terminated. Our analysis of these five projects showed that the OPIC screening process was not thorough enough to assure that an adequate determination was made in showing that no U.S. job losses followed the investments. Of the five investing companies, two told us they had U.S. job gains following the investments; one had no change in U.S. employment following the investment; and two had pre- or post-investment declines in U.S. jobs.

We found two cases involving possible U.S. job losses resulting from overseas investment. These concerned (1) a division of a large U.S. manufacturer of telecommunications and electronics equipment investing in Haiti and (2) a small electronics component manufacturer investing in Taiwan. OPIC used consultant reports in assessing the U.S. economic and employment effects of the investments, but it did not solicit the views of the Department of Labor, labor union officials, or other academic experts. OPIC approved the investments based on the consultant's evaluation of investor-supplied data, which included projections of positive U.S. balance-of-payment effects, host-country development benefits, and positive U.S. employment effects (job increases at the U.S. plants). The consultant estimated that one of the projects would result in the loss of up to six jobs, but judged that this loss would probably last only in the short run. Both

OPIC and the consultant judged the potential for technology transfer to be negligible, (although the two investors told us they had been the first U.S. investors to establish overseas operations in each particular stage of technology.)

In the case of the smaller investor, the Department of Labor, in response to a petition filed by the workers of one of the company's plants, determined in October 1980 that the company's employees were eligible to apply for trade adjustment assistance payments, because "imports of articles like or directly competitive with those produced" by the investor "contributed importantly to the decline in sales and production and to the total or partial separation of workers" at the company's plant. Labor Department records noted that the company's overseas facility in Taiwan produces articles which are imported by the U.S. plant whose employees have been adversely affected by imports. OPIC approved this company's investment in December 1976, before OPIC was required to prepare a formal "U.S. effects" analysis in screening investments.

In the case of the larger firm, a year before OPIC approved the project's expansion, a trade adjustment assistance petition had been filed by 125 workers of the same division which made the investment overseas. This petition, filed by workers of the investing division, did not result in payments of trade adjustment assistance because the firm's job losses were judged not to be due to U.S. imports. Between 1975 and 1980, workers of other divisions of this firm filed 19 similar petitions, 11 of which resulted in payments. Nevertheless, because OPIC did not consult closely with the Labor Department, OPIC was apparently unaware at the time it approved this project that the firm was experiencing job losses. We believe these cases illustrate the need for close consultation with labor in OPIC's screening and monitoring processes.

A third electronics case study concerned a large manufacturer of electronics components which established a manufacturing facility in Taiwan. We were told that OPIC utilized the opinion of a consultant and a Department of Commerce expert in assessing the U.S. employment effects of the investment, but did not solicit the views of other experts (notably the Department of Labor). Additionally, in approving the project, OPIC placed heavy emphasis on a strongly-worded investor assertion that the overseas plant would not replace U.S. production, nor result in U.S. job losses. The investor projected only minimally positive U.S. balance-of-payment effects over 5 years (due entirely to financial returns), and some development benefits. According to the investor, the

investment has not resulted in company job losses. We found no petitions for trade adjustment assistance filed with the Department of Labor by the employees of this company.

The other investors, small manufacturers of electronics components investing in assembly facilities in Haiti and Honduras, maintained that survival of their businesses depended on reducing labor costs, obtaining stable sources of labor, and increasing the volume of production. Although OPIC sought and utilized the opinion of a consultant, it again did not solicit the views of a wider range of government and non-government experts on the likely effects of the investments. OPIC approved the projects on the basis of projected U.S. job increases (at the companies concerned), host-country development benefits, and positive U.S. economic effects (favorable U.S. balance-of-payment impact) for one project, but adverse U.S. balance-of-payment effects for the other investment. As it turned out, according to the investors, these projects have resulted in U.S. job gains; one of the investors increased the U.S. staff of clerical and professional personnel, while the other investor expanded U.S. production capacity, leading to increased company employment.

For a broader view of OPIC's portfolio of electronics projects, we reviewed OPIC files for 21 of the 38 electronics projects for which OPIC issued contracts during fiscal years 1977-79. These 21 projects represented all OPIC electronics projects insured in Taiwan, Korea, and Malaysia for the 3-year period and accounted for 55 percent of all electronics projects insured by OPIC during that time.

Of these 21 projects, 11 anticipated direct exports to the United States of between 0 and 49 percent of total production, and about half (10 projects) relied on the U.S. market for over 50 percent of their production. This is some improvement over our findings in our 1973 report, where two-thirds of our sample at that time relied on the U.S. market for over 50 percent of their production.

For these investments, the information submitted by the applicants indicated the U.S. balance-of-payment position would be adversely affected, because the dollar outflow from the United States combined with investment-related U.S. electronics imports was expected to be only about 2.4 times the combined total of annual procurement from the United States plus annual financial returns to the United States. This represents a marked improvement over our findings from our 1973 sample of electronics investments, where we found the

U.S. dollar outflow and investment-related U.S. electronics imports to be 8.7 times the combined U.S. procurement and financial returns.

Shrimp Farming 1/

Although we found no indications in our case study that either U.S. job losses or significantly adverse U.S. balance-of-payment effects have followed this particular investment, the employees of companies engaged in conventional shrimp trawling have experienced job losses in recent years. (These losses have been caused, in part, by high operating and equipment costs, the loss of access by U.S. shrimp trawlers to Mexican waters, and U.S. shrimp imports.) We found, however, that in approving this investment, OPIC did not obtain several expert opinions to assure that the investment would not adversely affect the U.S. shrimp industry, shrimp prices, or U.S. jobs.

In our case study, a division of a small diversified U.S. company (previously engaged in conventional shrimp trawling) expanded its OPIC-insured shrimp business in Honduras. According to the investor, the purpose of the investment was to perfect this so-called "aquaculture" technology in a mild, year-round climate. The investor indicated to OPIC that the Honduras climate offered the best environment for the investment, and that the project could not be satisfactorily conducted in the United States. Following improvements in techniques of shrimp farming, the company would apply the technology commercially in a large-scale operation.

The investor projected positive U.S. economic effects (procurement from the United States plus financial returns were expected to exceed export sales to the United States); positive U.S. employment effects (an increase in jobs at the firm's U.S. research facility); and developing-country benefits.

OPIC's sectoral analysis reflected that OPIC consulted International Trade Commission and Department of Commerce studies and statistics, but that it had not consulted other sources of information, such as academic specialists, Government and non-Government aquaculture experts, and Department of

1/Shrimp farming consists of raising gravid shrimp and their offspring in concentrated quantities in ponds under optimally environmental conditions; it is still in experimental stages of development.

Labor experts. (Our review of trade adjustment assistance files revealed an abundance of petitions filed by employees of shrimp trawling companies who had suffered either temporary or permanent job losses. Most of these petitions, however, resulted in Labor Department denials of trade adjustment assistance payments.) In addressing the potential for the transfer of the aquaculture technology to Honduras, OPIC emphasized such transfer as a development benefit, but did not examine its effect on the U.S. shrimp industry.

Within OPIC, considerable internal debate preceeded the project approval decision. OPIC approval of the project expansion indicated that OPIC focused on (1) the project's host-country development benefits; (2) the project's likely displacement of third-country shrimp exports to the United States; and (3) the fact that the investor was a small U.S. business. OPIC recognized the fact that the project's exports to the United States exceeded export limits set forth in OPIC's own guidelines and applicable to the shrimp industry but approved the investment regardless.

Our discussions with academic and government experts revealed that shrimp farming is currently being successfully conducted (in small-scale operations) in parts of the United States, and indicated that no critical need exists for conducting shrimp farming overseas. Additionally, one expert suggested that some U.S. companies engage in shrimp farming overseas, in part, to avoid U.S. Government regulation of shrimp farming, and to reduce labor costs.

Leather tanning

Although there appears to be no relationship in our case study between the establishment of tanneries overseas and job losses, overall U.S. leatherworkers' job losses have been extensive. A shortage of hides and accelerated U.S. leather-goods imports have contributed significantly to the industry's job losses.

The investor, a small Northeastern U.S.-based tannery, established a facility in Haiti using locally-obtained hides. According to the investor, the purposes of the investment were to obtain both a stable source of labor (willing to perform certain unappealing tanning tasks), and a stable source of raw materials. The investor projected that the project would result in adverse overall U.S. balance-of-payment effects (export sales of hides to the United States would exceed U.S. procurement plus financial returns); positive U.S. employment effects (jobs would increase at the U.S. tannery); and host-country development benefits.

In conducting its analysis of the investment, OPIC did solicit the views of the appropriate leatherworkers union, and the union agreed with the company's decision to establish a tannery overseas. Thus, OPIC did not consult other experts for their views on the U.S. employment effects of the investment.

Although the investment was expected to result in adverse U.S. balance-of-payment effects over a 5-year period, the investor indicated that he had increased his firm's export sales outside the United States. According to the investor, employment at the U.S. tannery increased following the investment, although in 1980, the firm recorded company job losses, which the investor attributed to recession-related sales declines.

CONCLUSIONS AND RECOMMENDATIONS

OPIC's major weakness in its screening of proposed investments for possible adverse U.S. employment and economic effects is its failure to consult routinely with appropriate Labor Department and labor union officials. Currently, OPIC relies heavily on investor-supplied information and on Commerce Department and International Trade Commission industry specialists. In addition, OPIC does not have specific guidelines for approving projects in all import-sensitive industries. Our review of seven selected projects in three sensitive industries, for example, revealed that for two firms U.S. job losses followed or preceded the companies' establishment of assembly and manufacturing facilities overseas. For one, the Labor Department found some relationship between U.S. job losses and the overseas investment.

The scant empirical data available to support either the business or the labor position suggests a need for further in-depth research. An increase in the presently low level of substantive dialogue between business and labor groups would enhance Government policymaking. We believe OPIC should widen the range of expert opinions it seeks regarding sensitive investments to include not only labor officials but also other Government and non-Government experts. Visits to the U.S. plant sites and discussions with local labor and community officials can be valuable in assessing the needs of businesses invest overseas. We encourage more of these types of visits for sensitive industries.

We also believe that it is important to resolve the problem of labor's reluctance to fill its seat on the OPIC Board of Directors and that the Labor Department and the OPIC Board

of Directors should lead this effort. OPIC monitoring so far--both for U.S. effects and for development effects--has been minimal. Current monitoring plans, however, appear to be more systematic than previous efforts and, if carried out effectively, will be a significant improvement.

We recommend that the President of OPIC, in consultation with the Director of IDCA: require the OPIC staff (1) to consult with appropriate Labor Department and labor union officials, as well as a wide range of industry experts, when assessing import-sensitive industry project proposals and (2) to develop specific operational guidelines for approving projects in all import-sensitive industries.

CHAPTER 5

PARTICIPATION OF SMALL BUSINESS IN OPIC PROGRAMS

To increase OPIC assistance to U.S. small business, in 1978 the Congress stated that small business ventures should comprise at least 30 percent of approved OPIC projects each year. In the past 3 years, OPIC has intensified its efforts to promote small business investments overseas. Although it has encountered difficulties, OPIC has met this congressionally determined goal. However, OPIC needs to improve its ability to follow up on participants in the investor-mission and feasibility-study programs. This could result in even greater small business participation.

OPIC PROGRESS IN INCREASING SMALL BUSINESS PARTICIPATION

OPIC has met the 30-percent minimal target for small business ^{1/} participation for 2 of the last 3 fiscal years. This goal has been a problem for OPIC only in the insurance area, where requests for coverage historically have been dominated by the bigger U.S. firms. Small business has always used a major portion of OPIC financial services because these are more important to small business investors. The following table shows the extent of small business participation in different OPIC programs over the past 3 fiscal years.

TABLE 5-1

SMALL BUSINESS PARTICIPATION:
PERCENT OF PROJECTS COMMITTED

	<u>1978</u>		<u>1979</u>		<u>1980</u>	
	<u>Projects</u>	<u>Percent</u>	<u>Projects</u>	<u>Percent</u>	<u>Projects</u>	<u>Percent</u>
Insurance	24	32	20	28	30	31
Finance						
Direct loan	6	86	9	100	9	90
Loan guaranty	-	-	-	-	1	11

^{1/}Small business is defined in the conference report on the 1978 legislation as meaning not on the "Fortune 1,000" list (i.e., in 1979, below \$117 million in annual sales). The legislation extends this preference to cooperatives, so the statistical information will be for small businesses and cooperatives, combined.

Insurance program dominated
by larger investors

Large U.S. businesses continue to comprise by far the largest portion of the amount of OPIC insurance issued. This is not surprising because the large companies, compared with small businesses, have greater resources available and tend to invest more in larger projects. In fiscal year 1979, for example, the top 20 OPIC insurance users held 83 percent of the total insurance for the year; 15 of these are large U.S. businesses.

From a business and self-sufficiency point of view, such bigger insurance contracts bring OPIC greater revenues and result in a higher sales-to-staff expense ratio. Although small business promotion efforts are less cost-effective, OPIC has stated its commitment to meeting or exceeding its mandate.

Direct-loan program
useful for small business

Small businesses tend to find the OPIC program of providing loans from its Direct Investment Fund to be particularly useful because they frequently encounter difficulty in obtaining long-term financing for foreign investments. The availability of financing and the terms of the loan make this program very desirable for small businesses. Loans from the Fund must be for at least \$100,000 but not more than \$4 million. With these limits, the program is focused primarily toward small business even though companies on the "Fortune 1,000" list may participate. For fiscal years 1975 through 1980, 40 of 44 direct loans went to small businesses.

Loan-guaranty program
too costly for small business

The OPIC loan-guaranty program is not particularly suited for small business because of its cost (currently could exceed 18 percent) and the size of the projects, which have been ranging from \$2 to \$50 million. To receive a guaranty, the investor negotiates the terms of a loan with the lender--rates tend to be higher for small business--and then must add on the OPIC guaranty fee of 1-1/2 to 2-1/4 percent. The lender also has the option of adding compensating balances of up to 20 percent. Since 1975, only 2 of the 19 loan-guaranty contracts were for small businesses.

SPECIAL PROGRAMS TO ATTRACT AND ASSIST
SMALL BUSINESS INVESTMENT

Since the 1978 legislation requiring increased small business participation, OPIC has instituted several incentive and promotion programs for small businesses. Although these programs are positive in nature, there have been basic weaknesses in OPIC management which limit their potential. These special programs include (1) active advertising and promotion efforts, (2) special services and incentives for small business, (3) funding of pre-investment feasibility studies, and (4) investor missions.

As part of its promotion efforts, OPIC (with Commerce, the Small Business Administration, and the Eximbank) conducts 1-day seminars throughout the country to discuss the advantages of foreign investment and the assistance available from the sponsors. Attendance has been high and post-seminar comments by the participants have been favorable. One immediate effect of these seminars is that OPIC insurance and investment officers are flooded with inquiries following the seminars. OPIC personnel, however, do not know how many of the seminar participants invest overseas.

OPIC offers several special services and incentives to attract small business investments, including

- offering a reduced registration fee (\$50) that is half the standard fee of \$100;
- offering the small investor 100-percent coverage on investment insurance instead of the standard 90 percent;
- instituting a program where small businesses may obtain OPIC services through licensed insurance brokers whose fees OPIC will pay;
- lowering the minimum direct-loan limit from \$300,000 to \$100,000 to make OPIC services available to a greater range of small businesses;
- authorizing letters-of-credit insurance coverage to subcontractors;
- purchasing a toll-free telephone number;
and

--appointing small business officers and counselors to provide direct service to small businesses.

Another service important to the inexperienced investor is the OPIC Investment Survey Program. The purpose of this program is to provide careful and comprehensive pre-investment analysis and planning. The goal is to promote sound and secure investment decisions and to reduce the risk of failure. OPIC investment officers work with the investors in designing the content and process of the surveys. For small businesses, OPIC will cover 75 percent of the costs up to \$50,000, compared to 50 percent for large investors.

Another service that OPIC offers is their investor mission program. Under this, OPIC leads a group of interested investors to a country (at their own expense) to meet with high-level government officials and local businessmen. U.S. embassy commercial and economic officers contribute actively to arranging appropriate meetings incountry. For these investor missions, OPIC seeks participants from specific industries who are interested in a firsthand look at the local business climate, in meeting interested local partners, and in making the needed government contacts. About 60 percent of the participants in these missions have been from small businesses. One former participant told us that the mission offered him greater opportunities to make the high-level government contacts and to hold more discussions with potential partners than he alone would have been able to arrange.

OPIC management of these special programs, however, has been weak in the sense that OPIC, until summer 1980, had done little analysis of the actual results of these programs. Particularly for the investor missions and feasibility studies, OPIC did not actively follow up with the participating businesses to keep track of their progress and problems in investing overseas. Since last summer, OPIC has begun a more routine follow-up system for these programs.

If OPIC fully and properly implements this program, it would be in a position to learn what investment problems may have developed which OPIC could help to resolve. One host-country investment official told us that more U.S. Government followup with visiting investors might result in more investments being made.

OBSTACLES TO SMALL BUSINESS INVESTMENT
IN DEVELOPING COUNTRIES

Small businesses tend to share American business' concentration on domestic U.S. markets and its reluctance to invest in foreign countries with different and difficult business environments. Small businesses also face several other specific obstacles in investing overseas.

Countries such as Indonesia, Egypt, and Nigeria have vast internal markets that are attractive to U.S. businesses, but their remote locations and complex bureaucracies hinder U.S. small business. Long distances greatly hinder company communications and management supervision. Complex bureaucratic procedures often require that a company maintain a staff overseas, which can be quite expensive and difficult for thinly-staffed smaller firms.

Even in Taiwan, which is considered by large corporations a relatively easy place to invest because of the efficiency of the Taiwan investment process, small businesses may find investing to be exceedingly difficult. Small businesses generally lack the capital resources, personnel, and the technical and marketing expertise to establish businesses overseas and remain for long periods. Representatives of the American Institute in Taiwan told us that the high cost of keeping American personnel overseas, the accounting and reporting requirements of the U.S. Foreign Corrupt Practices Act, and other difficulties associated with establishing foreign ventures make investment overseas for most U.S. small businesses unrealistic and impractical.

As reflected in the geographic distribution of the OPIC portfolio of small business projects, most small businesses tend to prefer to invest in areas closer to home, such as Latin America and the Caribbean. Haiti and Honduras were the only countries among our six country case studies where OPIC was significantly supporting U.S. small business investments. U.S. embassy commercial officers in all the other countries we visited noted the real difficulties for small business investors--due to distance, local bureaucratic complexities, and the prevalence of local corruption--and the minimal involvement of small U.S. businesses in investing in these countries.

Small businesses may also not be able to provide the quantity and quality of resources that some countries prefer. In a country such as Taiwan, the desire is for high-technology investments which enhance its economic competitiveness in worldwide export markets. Indonesian officials also have

stated that in screening foreign-investment applications, they view access to the multinational firms' worldwide marketing networks as a very positive and desirable feature. In Nigeria and Egypt, the governments want current U.S. technology transferred so their industries can compete with imports. Many small businesses cannot meet these demands, and often the developing-countries prefer investments from larger firms which have established international reputations.

POTENTIAL FOR GREATER SMALL BUSINESS
INVOLVEMENT IN FOREIGN INVESTMENT

The small business investors we talked to tended to be risk takers and aggressive seekers of new or expanded markets and opportunities. Because of the greater commitment required of small businesses, the investors tend to be deeply involved and interested in the success of their ventures. Such personal involvement by the entrepreneur can sometimes overcome difficult investment obstacles. For example, State Department officials identified this involvement as the factor that facilitated a successful small business investment in Nigeria.

Some developing countries are especially interested in what small businesses can offer. Small companies that are not tied to large capital structures can often be more flexible and innovative in meeting local needs. Smaller projects may better serve small, fragmented markets. Often, small business projects are labor-intensive, as in Haiti and Honduras, where a primary government concern was for jobs--regardless of the technology transfer involved. Smaller projects can also be attractive for developing countries because they may require less-sophisticated technology and organization and may be able to operate in rural areas. On the other hand, small businesses tend to contribute less than larger firms to physical infrastructure development.

OPIC CAN DO MORE TO PROMOTE
SMALL BUSINESS INVESTMENTS

As noted earlier, OPIC services are probably more valuable to small businesses than to larger firms experienced in investing overseas. We were told that larger firms have found additional ways to minimize foreign investment risks (such as syndicating large loans with numerous international banks), which are not available to small business. Thus, we believe OPIC should continue, and expand, its emphasis on small business.

Most frustrating and discouraging to small investors are the processes that lie between initial contact and foreign-government approval and implementation. OPIC should improve its ability to help minimize these problems for small business investors. Closer follow up on participants in its investor-mission and feasibility-study programs should help OPIC become aware of these problems in the first place. Yet, OPIC alone cannot overcome some of the major obstacles in many developing countries to small investors. Closer collaboration with embassy and AID staffs could help resolve problems as well as identify appropriate investment opportunities. For example, specialists in capital-saving technologies at AID might be useful information sources to small business investors who have smaller amounts of capital to invest. Targeting of specific developing countries with investment climates favorable for small business might also lead to increased small business investment in the developing world.

Another suggestion that has been made is for OPIC to adopt a concessional, split-rate premium fee structure--i.e., more advantageous insurance rates--for small business investors in the least developing countries. It is not clear how much of an incentive this might be in encouraging small businesses to invest in the often very difficult business environments in many of the poorer developing countries. Such an action might also involve a greater degree of U.S. Government financial support for small business than the Congress had intended. This suggestion should be discussed thoroughly before the Congress.

CONCLUSIONS AND RECOMMENDATION

OPIC offers valuable services to small businesses interested in direct investment in the developing world. By actively promoting these services, OPIC has for 2 out of the last 3 years met the congressional requirement that small business projects comprise at least 30 percent of the projects it supports each year. We believe OPIC should continue and expand its emphasis on small business investments.

At the time of our review, however, OPIC had done little to follow up on small business investors participating in its investor-mission and feasibility-study programs, and did not follow up actively with interested investors to learn what problems they later encountered or to help resolve these. OPIC has now initiated a more routine follow-up system for these programs. In addition, closer OPIC collaboration is needed with AID and U.S. embassy commercial and economic officers to identify appropriate investment opportunities and for

help in resolving investor problems. The State and Commerce Departments and AID could also assist OPIC in targeting developing countries with investment climates favorable for small businesses.

Therefore, we recommend that the President of OPIC, in consultation with the Director of IDCA, fully implement its new system for evaluating and following up on OPIC small business promotion efforts, particularly its investor-mission and feasibility-study programs. A recommendation regarding closer OPIC collaboration with IDCA, AID, and the Departments of State and Commerce is made in Chapter 2.

CASE STUDIES OF THE DEVELOPMENT EFFECTS OF OPIC-SUPPORTED
INVESTMENTS IN SIX COUNTRIES

The case studies which follow illustrate investment priorities, screening controls, and the kinds of U.S. and particularly OPIC-supported investments. A list of the 30 case-study investments is found in Chapter 1.

EGYPT

Both Egypt and the U.S. Government have made important efforts to encourage U.S. private investment in Egypt to promote Egyptian economic growth and private-sector development. President Sadat's "Open Door Policy" of 1974, opening Egypt to increased foreign investment, was designed to help transfer modern industrial technology to Egypt by coupling it with surplus Arab capital and Egyptian manpower. A high-level U.S. investment mission went to Egypt in 1978, and now the U.S. Trade Representative is coordinating the activities of U.S. agencies (particularly OPIC, AID, Commerce, and State) to promote U.S. private investment in Egypt. Of our six country cases, Egypt was the only one where the AID mission staff had any real knowledge of OPIC investments and where the program, with its emphasis on private-sector development, was at all related to OPIC.

Despite this coordinated, high-priority effort, the response of the U.S. business community has been disappointing in terms of amounts and sectors of investments. U.S. investments have concentrated on petroleum, banking, tourism, and engineering and consulting services and, despite a special effort, very few have been in labor-intensive activities or in agribusiness. We were told that many U.S. businesses were waiting for a more definitive Middle East peace settlement before investing in Egypt.

Egypt's stated priority areas for foreign investment are those that generate foreign exchange (through exports or tourism), reduce imports of basic commodities, and use advanced technology. However, Egyptian officials told us that until recently there was little attempt to screen out investments with minimal or even adverse development effects because Egypt was so anxious to have foreign investment, it would approve virtually any proposal. The Egyptian Investment Authority, which is both a foreign investment approval and promotion agency, is now attempting to screen out certain types of investments and, with some assistance from the United Nations, to improve their ability to negotiate better terms with foreign investors. The one type of foreign investment now rarely approved, according to an Egyptian investment official,

is the establishment of foreign branch banks, which had aroused criticism because they concentrated on financing foreign trade rather than investment projects in Egypt. An Egyptian official told us that the Egyptian Government had recently persuaded a foreign automobile manufacturer to provide housing and schools for its employees in return for approval of the investment.

Although the OPIC-supported investments have created new jobs for Egyptians, they generally are not labor-intensive. (They ranged from \$9,933 to \$57,971 in capital/employment ratios; ratios under \$10,000 are considered labor-intensive.) U.S. investors, like other foreign investors, offer wage rates that are substantially higher than comparable Egyptian public-sector firms but are more in line with other private-sector firms. A result of this discrepancy between the private and public sectors has been that private firms attract the most qualified employees from the public sector. The problem has begun to cause concern that a visible gulf--a dual society--is emerging between well-paid private-sector and lower-paid public-sector employees.

Because the introduction of new technology usually involves capital-intensive projects, Egypt's urgent need to create new jobs sometimes conflicts with its desire to upgrade its technological base. The three manufacturing case studies in our sample--pharmaceuticals, dry cell batteries, and toiletries--all had introduced their most modern technology into Egypt, and the grain off-loading operation was in the process of seeking Egyptian Government approval for a new, fully mechanized offloading and bagging system. Some management and on-the-job training was present in each project.

A definite, but immeasurable, positive impact of most of these investments was their stimulation of local Egyptian enterprises. Local firms provided products and services such as office furniture, packaging materials (paper and glass), printing, advertising, construction, and distribution. One firm estimated that it had indirectly created 100 jobs in other local businesses in addition to the 31 jobs at its own facility. Two local plant managers commented that as a result of their presence, local suppliers have improved the quality of their products to meet U.S. firms' higher quality standards.

Although most U.S. firms had initially invested in Egypt to produce for export to other Middle Eastern nations, none are presently producing for export--and thus earning foreign exchange for Egypt--due to the Arab boycott of Egypt resulting from Egypt's participation in the Middle East peace

process. Only the investment serving the navigation systems of foreign ships passing through the Suez Canal, was earning foreign exchange for Egypt. In some cases, however, these investments may be saving Egypt foreign exchange by locally producing goods which are now imported (although such import substitution policies can also be harmful to the local economy.)

Social and community benefits were identifiable in some of the investments. These benefits included transportation to and from work, free lunches, religious worship facilities on the firms' grounds, and medical units or a medical referral service. One firm is planning to initiate a school dental hygiene program. Another firm has plans for an employee residential area to include housing, a clinic, a school, a mosque, stores, and recreational facilities. None of these firms told us that OPIC had suggested such additional benefits.

The one U.S. agribusiness investment OPIC was assisting as of October 1980, a desert land reclamation project for citrus production, fits well into Egypt's New Lands and agribusiness-development priorities, although AID had some serious reservations about its cost-effectiveness. However, inter-ministerial differences and unfulfilled Egyptian Government commitments have proved a major obstacle to project implementation.

The only possible adverse investment was one involving the initial expenditure of \$12 million for copying machines to be used by newly established copy shops serving the business community in Egypt. The capital/employment ratio was \$57,971 and few development benefits were visible. Other investments with potentially questionable development benefits--such as cosmetics and candy manufacturing--were potential new OPIC contracts, despite Egyptian Government calls to end benefits for projects involving luxury products.

INDONESIA

Responding to a sharp decline in foreign investment following the Pertamina financial crisis of 1975 and the forced renegotiation of oil company contracts in 1976, the Indonesian Government has recently shown greater interest in acting to improve the country's investment climate. However, the period since the mid-1970s has been one of light U.S. private investment in Indonesia, especially for new investments and also as compared with Japanese and Hong Kong investments. Overall, U.S. investment in Indonesia has concentrated mostly on oil and mineral development. (See app. III for a list of major countries investing in Indonesia.)

The Indonesian Investment Coordinating Board, which approves and promotes foreign investment and sets investment priorities, considers Indonesia's top priorities for foreign investment to be in (1) job creating activities, (2) industries yielding exportable commodities, (3) processing of natural resources, and (4) industries with large capital and high technology requirements. Specifically, these top priorities are in agriculture (development of commercial crop plantations), wood processing, manufacture of machinery and fabricated metal products, petrochemicals, and cement and brick manufacturing. Special incentives are offered for investments meeting these priorities and for those located outside the central island of Java.

Several sectors are closed to foreign investment. These, as a rule, have low technological requirements and low capital needs, or are heavily geared to the domestic market. The Indonesian Government is also adopting a stricter policy for the forestry and timber industry and foreign investment in logging and sawmills is completely closed.

Of our five OPIC-supported case studies in Indonesia, one investment was originally expected to be labor-intensive. One other investment, a light manufacturing firm producing containers for the pharmaceutical industry, was employing three times as many Indonesians as originally anticipated and could now be considered labor-intensive. All investments provided some production and management professional training. An Indonesian investment official told us that, generally, U.S. firms do the best job of training and transferring technology to their Indonesian employees.

Two of our case studies were in the advanced-technology communications area and were highly capital-intensive. One case involved the installation of a submarine cable system, linking Singapore and Indonesia; the second was for an earth satellite station antenna and ground control equipment. The developmental benefits of these projects are basically (1) the provision of modern, reliable international communications to a country short of basic communications technology and (2) the employment and training of Indonesians to eventually operate and maintain their own domestic and international telecommunications systems.

Only one case study--an agribusiness investment in the construction of a coconut and palm oil refining facility--involved the local processing of indigenous raw materials. This project was also the only case study located outside Java. The investment was to help convert Indonesians' tastes from coconut oil to the less expensive palm oil, an Indonesian

Government goal. The U.S. agricultural attache told us that there has in fact now been some increase in Indonesian palm oil consumption. 1/

Stimulation of local industries supplying the investments was not a major development benefit for most of our case studies because most firms imported basic production materials as well as sophisticated, high-technology products.

Significant additional social and community benefits were provided in one case. This firm was providing free transportation to work, free medical treatment for employees and families, two free meals a day, and even financial assistance for employee attempts to purchase houses. Another U.S. investor, insured by OPIC but not among our case studies, was cited as particularly developmental in providing such additional benefits. This was a copper mining project in the remote and undeveloped region of Irian Jaya, which has helped, with the provincial government, provide virtually all medical, educational, and agricultural facilities, in addition to the actual mining site. The U.S. AID program in Indonesia is oriented to rural and small-scale projects, and the AID mission had little knowledge of, or interaction with, OPIC projects.

TAIWAN

Taiwan has shifted from its labor-intensive development strategy of the 1960s to a strategy based on attracting high-technology, capital-intensive foreign investments. It recently designated 12 specific categories as favorable for foreign investment 2/ and is now discouraging proposals that are solely labor-intensive, since Taiwan now has a labor shortage. With its overall trade surplus, high rate of local capital mobilization, 3/ and its labor shortage, the major attraction of foreign investment for Taiwan is the introduction of advanced technology.

1/This investment also was said to fit U.S. interests in reducing the volume of Indonesian palm oil production destined for the export market and, thus, competing with U.S. soybean exports.

2/Metals, machinery, automobiles, electronics, electric machinery, paper, chemicals, non-metallic minerals, ceramics, textiles, handicrafts, and photographic/optical and surgical equipment.

3/Foreign investment generally represents less than 5 percent of total investment.

Taiwan has continued to attract foreign investment despite its loss of international political status. Foreign investment in Taiwan increased 54 percent from 1978 to 1979, with U.S. investment increasing 15 percent. More than 50 percent of total U.S. investment of \$666 million in the period 1952-79 was concentrated in the electronics industry; about 20 percent was in the chemicals industry. In 1979, 79 percent of U.S. investment was in Taiwan's electronics industry; about 5 percent was in chemicals.

With a per capita gross national product in 1978 of \$1,400, Taiwan is not really a developing country. In terms of income distribution, Taiwan is said to be among the more egalitarian societies in the world. Unemployment in 1979 was less than 3 percent and industrial wages increased 23 percent. Per capita caloric and protein intake is among the highest in the world. Under the Taiwan Relations Act of 1979, however, OPIC is authorized to insure investments until 1982 in Taiwan.

We studied six U.S. investments in Taiwan insured by OPIC since fiscal year 1977--three in electronics and one each in telecommunications, agribusiness, and textile machinery. We found the overall development impact of these projects to be (1) employment and training of company employees, (2) transfer of technology and (3) some procurement of raw materials from local suppliers and use of local contractors.

Four of our case studies were employing significantly more Taiwanese workers than estimated in the investor's OPIC application. (Of the other two cases, one employed close to the original estimate and one had closed temporarily to refurbish the plant after a change in U.S. owners.) Because of the labor shortage, company wage levels have had to be competitive for the firms to keep a steady labor force. These investment projects were providing at least some training for both their production and managerial/professional workers.

Transfer of advanced technology appears to be a significant benefit of two of these cases--a joint venture project for the design, manufacture, testing, and installation of telecommunications equipment in Taiwan and the design and manufacture of synthetic textile machinery (previously imported from Japan.) The electronics cases appear to involve only assembly of imported components into finished products for export. The agribusiness investment for the manufacture of poultry and livestock feed products has not transferred high technology, although it has helped improve techniques of livestock and poultry production. Overall, Taiwan has been satisfied with the willingness of U.S. companies, as compared

with other foreign investors, to transfer higher technological processes to Taiwanese partners. Stimulation of local enterprise through the companies' materials and services purchasing is occurring, although some firms noted a need to upgrade the quality of local suppliers before they would increase local purchasing.

HAITI

Although fundamental problems continue to retard Haitian economic development, U.S. direct foreign investment has contributed somewhat to alleviating these deficiencies. Haiti's primary needs are for increased employment, improved health and housing conditions, improved infrastructure, and the acquisition of pertinent technology. Priorities designated by government officials for foreign investment consist of those which generate employment, stimulate agricultural production, improve physical infrastructure, and assist in developing rural communities. The Ministry of Commerce approves all foreign investments, while the newly-created National Office for Investment Promotion is expected to take an active role in directing private foreign investment toward the nation's most critical development needs.

In screening investments for maximum development effects, Haitian officials assign priority to those which are labor-intensive (although the actual industries do not concern the Haitians). Haiti has no criteria for rejecting investment projects with minimal or nonexistent development benefits, and Haitian officials could recall having rejected only one proposed U.S. investment in this category.

Our review of the development benefits of five OPIC-insured or financed investments showed that the projects assist in partially fulfilling the basic Haitian development needs for employment, improved health care, technical and managerial training, and improved agricultural production and consumption standards.

Two OPIC-insured "transformation industry" projects (consisting of the assembly of electronic components) provide jobs, health benefits and training to Haitian laborers. They also stimulate local industries and generate foreign exchange in Haiti. Although Haitian officials recognize the limitations of assembly-type investments in terms of increasing the country's long-term production base and skill levels, the officials support and encourage investments of this type because of the urgent need for increased employment.

An OPIC-insured and financed manufacturer of locally crafted furniture provides jobs, health benefits, training, some stimulation of local industries, and the generation of foreign exchange for Haiti. The development benefits resulting from this investment fall below investor-supplied estimates in that (1) locally created employment of approximately 50 jobs is well below the 400 jobs estimated to be created, and (2) the development of an indigenous raw material in a rural community for use in the manufacture of furniture did not occur.

An OPIC-insured tannery provides employment, training, health benefits, and water for area residents (free of charge) from a company-dug well; additionally, the company's construction of a road to its plant site provided access to an area being developed for the construction of housing. A meat packing investment provides employment, health benefits, training, and an overall improvement in local meat inspection, processing, and consumption standards.

A presently minimal level of coordination of efforts to increase U.S. investment to Haiti's development benefit exists between OPIC, AID and U.S. Embassy staff, and Haitian development officials. Proposed OPIC-insured or financed investments require Embassy clearance and comments, but AID has not actively participated in this process. AID also does not routinely inform OPIC of possible investment opportunities which could result in enhanced development benefits for Haiti. OPIC's contact with Haitian investment officials consists of occasional direct dialogue (when the opportunity arises for OPIC officers to visit Haiti), but mainly informal contact through submission of investment proposals for approval by the Government of Haiti.

HONDURAS

OPIC-insured or financed investments collectively assist in fulfilling Honduras' most critical development needs and match locally established investment priorities. The United States maintains a high foreign investment profile in Honduras: the stock of U.S. investment totals approximately \$190 million and accounts for 86 percent of total foreign investment. OPIC insures or finances approximately 17 investments in Honduras for a combined insurance/loan exposure of about \$71.7 million, which constitutes less than 2 percent of OPIC's total worldwide exposure and about 38 percent of total U.S. investments in Honduras.

Established investment priorities consist of those agricultural, industrial, and infrastructure investments which use indigenous raw materials, create employment, increase housing construction, and enhance trade objectives. Although proposed investments undergo some government screening, no records exist of rejections of proposed investments due to few or non-existent development benefits.

We selected four investments for our review of the development impact of OPIC-insured or financed investments in Honduras. All of the projects create employment, provide higher wages, more benefits and training than most local firms, and also match government-established investment priorities. Two of the four investments transfer appropriate technology and use significant local procurements and services in production.

An electronics assembly plant situated in an under-developed island community provides local employment, comparatively high wages and benefits and technical training for approximately 42 Hondurans, although a high employee turnover rate exists. Additionally, the company procures operating supplies on the local market, but does not use locally obtained raw materials as assembly inputs. The project does not transfer appropriate technology to Honduras.

A shrimp farming investment provides employment, high wages and benefits, managerial, technical, and scientific training, and housing for 100 employees in an undeveloped rural community. Additionally, the company sponsors two schools for the children of employees, procures feed for the shrimp from local sources, and the project generates foreign exchange for Honduras. A planned associate growers program (designed to enable local landowners to construct shrimp ponds with the technical assistance of the company) has not materialized.

Employing approximately 230 people, a meat processing investment provides relatively high wages, health benefits, and agricultural training to employees. The investment serves local beef markets, as well as generates foreign exchange through beef exports. The project does transfer appropriate agricultural technology.

A truck distributorship, financed by OPIC, has contributed to improving transportation in a rural area, and provides employment and training (mechanical and clerical) for 25 employees.

Although AID's fiscal year 1982 Country Development Strategy Statement states that AID will explore opportunities for joint efforts with OPIC, there has been minimal OPIC-AID collaboration so far in Honduras.

NIGERIA

With its great wealth from oil exports, Nigeria is a developing country that no longer receives concessional U.S. aid. Nigeria's wealth, however, must be spread among the largest population in Africa (over 80 million).

Nigeria's new civilian government has stated that it wants private investment to spur meaningful economic development and that it seeks American technology to assist in its development priorities: agriculture, education, health care, and industrialization. To date, however, American investors have found it extremely difficult to invest in Nigeria.

Investment problems were among the topics of discussion between the Nigerian Government and a delegation led by Vice President Mondale in July 1980. At these discussions, the Nigerian Government resolved to cut through its bureaucracy and to speed the processing of investment approvals by establishing a single point of coordination, the Office of Investment Development, so that foreign investors would need to deal only with this office and their local partners, instead of with many separate government agencies. The Nigerian Government also resolved to take positive actions to promote American investment by establishing investment centers in the larger American cities to promote investment in Nigeria and by assisting the potential investors as necessary.

At least three major factors inhibiting U.S. investment remain, however: Nigeria's indigenization requirement, local corruption, and a lack of basic physical infrastructure. Currently, the Nigerian laws require that at least 60 percent of the ownership of investor products be Nigerian-owned. For many American investors, this situation, where they do not have absolute control, is not acceptable. Local corruption is also a problem for the American investor, as it is in many other developing countries, because a bribe or "service payment" is often the only way to obtain local approvals. There are more applications pending for OPIC insurance for projects in Nigeria than anywhere else in Africa. These applications are for projects in health care, food processing, mining, telecommunications, construction, and manufacturing. However, final investments have been scarce.

Our case-study investments were a flour mill, a dry-cell battery plant, and an investment bank. Their developmental effects vary greatly, but they all benefit Nigerian development in some way. The flour mill project provides a direct source of nutrition for the population by providing flour that is enriched. The Nigerians also gain from import substitution and adding value locally. We were told that this project provides over 300 jobs directly, and over 500 more jobs in support and distribution services. The mill, also, is rurally located, unlike our other two case studies.

The battery plant investment was assessed by the U.S. Embassy in Nigeria as being basically beneficial. The project is highly capital-intensive, but it does provide some jobs and training. It also provides a cheaper source of portable power for the consumer who before had only highly-taxed imported batteries to buy.

The merchant bank project provides a local source of financing for other investments in manufacturing and infrastructure development. Thus, its major developmental effect is indirect. The transfer of international banking expertise and the management and technical training of the 75 employees are direct developmental effects.

LIST OF COUNTRIES EXCLUDED UNDER
THE \$1,000 PER CAPITA GNP
RESTRICTION, (AS OF MAY 1980)

Argentina	Malta
Barbados	Oman
Brazil	Panama
Chile	Portugal
Costa Rica	Romania
Cyprus	Saudi Arabia
Fiji	Singapore
French Guiana	Surinam
Gabon	Taiwan
Greece	Trinidad & Tobago
Iran	Venezuela
Israel	Yugoslavia

MAJOR SOURCES OF INVESTMENTEGYPT: SOURCES OF CAPITAL FOR INLAND 1/ NON-FINANCIAL PROJECTS
(1974-79)

<u>Source of Capital</u>	<u>Percent of Total</u>
Egyptian capital in joint ventures	31.3
Projects fully owned by Egyptians	24.4
Arab nations	15.5
United States	9.6
European Community	7.2
Other	12.0
Total	<u>100.0</u>

INDONESIA: FOREIGN INVESTMENT APPROVALS (1967-78)

<u>Source of Capital</u>	<u>Total Projects</u>	<u>Capital</u> <u>—(millions)—</u>	<u>Percent of Total</u>
Japan	203	\$ 2,534	35.5
United States	105	800	11.2
Hong Kong	118	722	10.1
Philippines	20	311	4.4
Netherlands	49	230	3.2
Other	310	2,532	35.6
Total	<u>805</u>	<u>\$ 7,129</u>	<u>100.0</u>

TAIWAN: TOTAL FOREIGN INVESTMENT CAPITAL

<u>Source of Capital</u>	<u>1952-June 1980</u> <u>—(millions)—</u>	<u>Percent</u>	<u>1977-June 1980</u> <u>—(millions)—</u>	<u>Percent</u>
United States	\$ 735.8	29.6	\$ 244.0	26.1
Japan	411.8	16.6	165.1	17.6
Europe	253.6	10.3	59.2	6.3
Overseas Chinese	839.6	33.8	389.7	41.7
Others	241.5	9.7	77.3	8.3
Total	<u>\$2,482.3</u>	<u>100.0</u>	<u>\$ 935.3</u>	<u>100.0</u>

FOREIGN INVESTMENT IN TAIWAN'S EXPORT PROCESSING ZONES (1966-June 1980)

<u>Source of Capital</u>	<u>Capital</u> <u>—(millions)—</u>	<u>Percent</u>
Japan	\$ 113.9	46.1
Europe	48.2	19.5
United States	38.9	15.8
Overseas Chinese	35.1	14.2
Other	10.9	4.4
Total	<u>\$ 247.0</u>	<u>100.0</u>

1/Does not include investment in Egypt's free zones (about 15 percent of total investment).





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