

Haubold, Dietmar

Article — Digitized Version

Promotion of US private investment

Intereconomics

Suggested Citation: Haubold, Dietmar (1971) : Promotion of US private investment, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 06, Iss. 11, pp. 347-350,
<https://doi.org/10.1007/BF02926251>

This Version is available at:

<https://hdl.handle.net/10419/138552>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Promotion of US Private Investment

by Dietmar Haubold, Hamburg

The Overseas Private Investment Corporation (OPIC) has been officially in business since January 19, 1971. Its major purpose is to reorganise and widen the scope of programmes for the promotion of US private investment overseas in developing countries.

The statutory basis for forming OPIC is the Foreign Assistance Act, which became law already in 1969¹. The Act separated these programmes from the field of activities open to AID (Agency for International Development). The American legislators have thus kept in line with the worldwide trend of handing over promotion of investment activities overseas to independent semi-governmental corporations. There have been other successful examples of this type, including ADELA, the multinational Atlantic Development Company for Latin America; IFC, the International Finance Corporation, an affiliate of the World Bank; the German Development Company (in the Federal Republic), and the Commonwealth Development Company in the UK.

Why Reorganisation?

Washington decided to regroup its agencies for promoting overseas investment because it was found necessary to raise the efficiency of US development aid, especially by attracting more private capital to development projects. Frequently voluminous assistance had not prevented the decline of US direct investment in developing countries from a share of 49 p.c. of the total book value of such American investments abroad in 1950 to only about 29 p.c. in 1969. This steep drop is to be regretted, because of the decisive contributions of direct investment to economic and social progress in developing areas, which are the following:

- ☐ A chronic ailment of most developing countries' economies is the shortage of capital, which tends to be mitigated by imports of foreign capital;
- ☐ direct investments may reduce the dependence of such countries on imports and increase their exports;
- ☐ direct investments create new employment

and simultaneously finance facilities for training local labour;

- ☐ direct investments are a powerful instrument for handing on technological and management knowhow to developing nations and thereby strengthening the private sector of such countries' economies.

Objectives and Operating Policies

A list of detailed objectives to be striven for by the Overseas Private Investment Corporation makes the following points²:

- ☐ To further US foreign policy by coordinating private projects with government programmes which support development of local private enterprise, and which broaden popular stakes in economic growth.
- ☐ To provide a more responsive structure through which US private business management and experience as well as capital can play a greater role in development, and to generate a broader understanding in the American business community of the needs, capabilities and opportunities for private activity in the developing nations.
- ☐ To expand and put the management of investment incentives on a more businesslike basis, increasing their efficiency, effectiveness, and adaptability to specific project needs.

Whether individual projects are worth supporting is mainly determined by their likely contribution to two major objectives: the share which the project under review may contribute to economic and social development of the country where investment is planned, and that which it may contribute to the balance of payments of the US. Projects are therefore carefully examined both as to their private profitability and to the advantages they offer to capital-importing countries by raising their national income, their rate of employment, their foreign currency earnings,

¹ Cf. Public Law 91-175, Part I, Title IV, 91st Congress, H.R. 14580, Dec. 30, 1969.

² See AID, Overseas Private Investment Corporation (OPIC), Fact Sheet, Jan. 1971, pp. 1 et seq.

and/or by lowering their foreign currency spendings, as well as to their contribution to technological and management progress. In addition, OPIC is statutorily bound, in supporting projects, "to further to the greatest degree possible, in a manner consistent with its goals, the balance-of-payments objectives of the United States; to conduct its activities in consonance with... the international trade, investment, and financial policies of the United States Government"³.

Another one of the major aims of forming OPIC as an independent corporation is greater financial flexibility. Whilst AID depends, for its financing, on annual appropriations by the US Congress, OPIC has been equipped with its own authorised capital, and the Corporation is expected at least to cover costs, if not to show a reasonable profit on its operations. The administrative and management costs of its promotion programmes are to be financed through repayment, and through interest and fees charged for the loans and guarantees it issues. Moreover, the Corporation will attempt to further broaden private participation in development and to revolve its funds by selling investments in its portfolio to private investors. OPIC is precluded from making direct equity investments, but may purchase convertible debentures which it may sell to private investors for conversion to equity stock⁴.

Organisation

Also the form in which the Corporation is organised points specifically to its purpose to attract more private capital to US development aid. OPIC is being run by a board of eleven directors who are to be appointed by the President of the US with the approval of the Senate. A majority of these directors (six) are highly skilled experts from business. The chairman is the Administrator of AID *ex officio*. The chairman and chief executive comes from the private sector. The remaining three government directors are representatives of departments and agencies charged with US foreign economic policy⁵.

The purpose of drawing on representatives of private business for OPIC management is the achievement of greater efficiency and flexibility of investment promotion. The function of government representatives on its board, on the other hand, is to develop OPIC's own measures in regular consultation and coordination with foreign aid programmes and promotion measures run by other government departments (The Departments of State, Commerce, Agriculture, and

Treasury) and semi-governmental agencies (the Export-Import Bank of the United States).

The organisation of OPIC is determined by its two main Divisions: one is looking after political risk insurance, the other after investment financing. The latter operates widely different programmes, including pre-investment assistance, private loan or equity guarantees, and dollar and local currency loans.

Political Risk Insurance

Insurance against political risks is intended to cover three types of claims:

- ☐ Expropriation and confiscation;
- ☐ war, revolution, or insurrection;
- ☐ inconvertibility of transfer of capital and profits.

The main condition for OPIC taking over cover in the form of an investment guarantee is the existence of a valid bilateral agreement between the country where funds are to be invested and the US. Such agreements have the purpose to regulate, before any OPIC-supported investment is made, the payment of claims from guarantee treaties made between interested governments, the transfer of the currencies used, and to lay down the forms and procedure of settling any other questions arising between governments regarding the insurance programme.

Furthermore, the governments of host countries must approve of all investment projects before any of them is launched. These rules are intended by the US Government to keep the risks of such investment projects within narrow limits, and to ease the settlement of any claims that may arise.

Should any claim arise, investors, before obtaining its settlement, must cede to the US Government all rights and claims to compensation. This rule has a similar purpose — to assist settlement between governments by diplomatic means. The variety of capital investments abroad which are to be protected in this way is defined very broadly. Equity insurance cover is granted usually for no longer than 20 years. Insurance cover for loans is extended for the redemption period of such lendings. But short-term loans for less than three years will not be covered. Other insurable investments are the licensing of patents, processes, or techniques, and technical assistance agreements and, in exceptional cases, also long-term suppliers' credits. Investments may be either in cash or through supplies of materials and equipment.

An innovation against the rules under which AID operates is the authority granted to OPIC to take part in multilateral agreements which provide in-

³ Foreign Assistance Act of 1969, loc. cit., Section 231.

⁴ Cf. An Introduction to The Overseas Private Investment Corporation (OPIC), March 1970, p. 6.

⁵ Cf. Fact Sheet, loc. cit., p. 4.

insurance cover for multinational projects. However, OPIC may only provide cover, through such agreements, for the US share in such projects. The maximum contingent liability outstanding at any time pursuant to insurance shall not exceed \$ 7.5 bn⁶. No more than 10 p.c. of total available insurance cover may be granted to any individual investor.

Pre-Investment Assistance

In order to persuade potential investors to investigate certain possibilities of investing abroad, which may be worthy of promotion, OPIC subsidises investment feasibility studies, normally by taking over up to 50 p.c. of their costs (these are therefore called "fifty-fifty surveys"). However, this share will *not* be paid if and when the survey results in an investment being made. Conversely, should the survey lead to a refusal to invest, the report becomes OPIC property and may be used for informing other potential investors.

More than 50 p.c. of surveying costs may be borne by OPIC for certain purposes, notably in the field of food production and processing, e.g. under the "High Protein Food Survey Program". This programme is designed to induce US companies to take an interest in producing and marketing protein-rich foods in a number of selected developing countries.

As feasibility studies for investments abroad may cause considerable outlays, the participation of OPIC in them is an important form of support and promotion aid for private overseas investment.

Guarantees

Over and above political risk insurance, OPIC has taken over from AID also the extended risk guarantee, against political and commercial risks. At first sight, the two programmes seem to be almost identical. But actually, the Investment Guarantee Programme is a tool of financing, for guarantees are to encourage institutional investors, including pension funds and insurance companies, to take part in financing direct investments. For institutional investors' risks, any OPIC guarantee is equivalent to a loan granted to them. Companies which obtain such a guarantee are thereby enabled to raise additional funds from institutional investors which, without an OPIC guarantee, would not be available to them.

Different from extended risk guarantees of AID, the guarantee programme of OPIC will not only cover the risks on up to 100 p.c. of private loans but also on up to 75 p.c. of private equity participation in companies operating in developing

countries. It is, however, conditional for 100 p.c. guarantees for loans that such advances will finance no more than 75 p.c. of any individual investment project. The maximum contingent liability outstanding at any one time pursuant to guarantees issued shall not exceed in the aggregate \$ 750 mn⁷.

Future OPIC guarantees to private lenders and purchasers of equity are to replace, to a growing extent, direct dollar loans granted by OPIC. This aim may be supported further by President Nixon's decision of September, 1970, to do away with one of the main conditions for issuing guarantees, viz. that guaranteed loans must lead to exports of US manufactured goods and/or services of the same total value as the guarantee. Under this change, US guaranteed loans may also serve to pay for goods and services originating in other industrialised countries, provided that such countries contribute a reasonable share to financing guarantee-aided projects.

Local Currency Loans

US businesses operating in developing countries frequently also suffer from a scarcity of local currency, because of the chronic shortage of capital prevalent in such areas. Moreover, local currency requirements are comparatively large, since investors from the US endeavour to minimise dollar capital exports for currency risk reasons, which means that they try to meet their payments obligations in any host country through mobilising funds in that country.

To break this bottleneck, the US Congress passed in 1957 the so-called Cooley Amendment which varies Public Law 480. This amendment permits up to 25 p.c. of local currency revenues originating from supplies of US agricultural surpluses to be used for loans to qualified debtors. "Cooley Loans" are repayable in the same local currencies, and they carry interest at the same rates which are charged by local development banks.

The Cooley Loan Programme was initially handled by the Export-Import Bank, later by AID, and it has lately been transferred to OPIC. In the future OPIC will administer the extension of Cooley loans to the extent of amounts determined annually. In financing projects in countries where these sources of local currencies are not available or adequate, the Corporation can, with the concurrence of the Treasury, permit the use of a portion of its dollar financing, including loans and guarantee agreements, to cover a reasonable share of project local costs⁸.

⁶ Foreign Assistance Act of 1969, loc. cit., Section 235 (a) (1).

⁷ Loc. cit., Section 235 (a) (2).

⁸ Cf. Fact Sheet, loc. cit., p. 1.

OPIC's capital may be used for extending direct dollar loans. For this purpose, an internal OPIC fund has been formed, known as the Direct Investment Fund⁹.

In 1970, Congress passed an initial \$40 mn appropriation for setting up this Fund, which are to be paid up, in equal halves, during the fiscal years 1970 and 1971. The appropriation was not for "new" funds but for repayments and interest flowing from development loans made previously by AID or by one of its predecessors.

The Fund will be credited with interest payments on direct loans and profits from sales to private investors of convertible debentures and other loan instruments in projects. The fund will be charged with realised losses on uncollected direct loans¹⁰.

⁹ Cf. Foreign Assistance Act of 1969, loc. cit., Section 234 (e).

As already mentioned, direct dollar loans are to be issued only sparingly. The main impact of financial aid granted by OPIC is to be made through investment guarantees. Only if loans from private finance remain unobtainable even when guaranteed by OPIC and the relevant development project is deemed to be specially worthy of support, OPIC will bridge the gap by its own loans.

This OPIC programme, in addition to the ones discussed earlier on, show that US legislators are determined to increase both efficiency and flexibility of development aid mainly by channelling private capital into it. Whether and to what extent this aim will be achieved depends largely on the manner in which this tool of financing will be used by the OPIC corporation's management.

¹⁰ Cf. U.S. Overseas Private Investment Incentive Programs in 1970, Washington, Nov. 1970, p. 31.

Diversification as a Commodity Policy

by Dr Siegfried Böttcher, Bonn *

The disparities between the economies of developing countries and those of industrialised nations are still widening. How can the economic process in the developing countries be accelerated as soon as possible? The following article examines this decisive question.

In 1969, the GNP of all developing countries with a population of 1.7 bn amounted to over \$300 bn (at current prices) whereas the GNP of the developed countries including socialist countries with a population of about 1.1 bn accounts for about \$2,400 bn. These disparities pose a great problem to the international community. Even though in 1968/69 the rate of growth of the developing countries' real GNP was 2.1 p.c. higher than in the developed market economy countries it is not easy to foresee when this gap between the two groups of countries can be closed. In view of the widely diverging income values of the two groups of countries the question of whether this gap will be closed in the foreseeable future seems to be rather unrealistic. For the time being it should be more important merely to try to improve the economic situation in the developing countries as soon as possible rather than to close this gap.

In this connexion it should be noted that the share of primary commodities, i.e. food, raw

materials, metals and fuels, in world trade has decreased continuously—in 1970 it amounted only to 38 p.c. of world trade—whereas the share of semi-finished and finished products continues to pick up. It is particularly the developing countries that are affected by this development because 85 p.c. of their exports still consist of primary commodities. The exports of commodities from developing countries now grow much more slowly than those of manufactured goods. Between 1960 and 1968 the developing countries' exports of food grew by 3.3 p.c., the exports of raw materials by a mere 1.4 p.c., those of non-ferrous metals by 9.7 p.c. and those of fuels by 8.5 p.c., coming up for all primary commodities to 4.7 p.c. on average (if fuels are excluded to 2.4 p.c. only). However, during the same period the growth rate of exports of manufactured goods from the developing countries being 11.6 p.c. on average was two-and-a-half times higher than that of all primary commodities (or about five times higher if fuels are excluded). In quoting these percentage figures one has to be aware of the fact of how misleading it can be to compare such figures;

* Federal Ministry of Economics and Finance.