DOCUMENT RESUME

03453 - [A2513645]

Examination of Financial Statements of the Overseas Private Investment Corporation, Fiscal Years 1976 and 1975. ID-77-24; B-173240. September 7, 1977. 25 pp. + 4 enclosures (12 pp.) + 2 appendices (6 pp.).

Report to the Congress; by Elmer B. Staats, Comptroller General.

Issue Area: Accounting and Financial Reporting (2800).
Contact: International Div.
Budget Function: International Affairs: Foreign Economic and Financial Assistance (151).
Organization Concerned: Overseas Private Investment Corp.
Congressional Relevance: House Committee on International Relations; Senate Committee on Foreign Relations; Congress.
Authority: Foreign Assistance Act of 1969 (P.L. 91-175). Overseas Private Investment Corporation Amendments Act of 1974 (P.L. 93-390).

In order to encourage the investment of U.S. capital and resources in developing countries, the Overseas Private Investment Corporation's (OPIC's) Investment Insurance Program insures U.S. investors against political risks of loss from expropriation, inconvertibility of currency, and war, revolution, or insurrection. Findings/Conclusions: As of June 30, 1976, OPIC's maximum contingent liability for insurance was $6.2 billion. The Corporation's management believes that a more accurate representation of its maximum potential exposure to insurance claims is $3.08 billion. At June 30, 1976, the Corporation's insurance reserve for losses amounted to $204.7 million. The potential charges against this reserve for claims filed totaled $395.5 million. As of June 30, 1976, OPIC also had outstanding guarantees totaling $157 million and outstanding loans totaling $22 million. Except for the adequacy of the amount reserved for losses, the financial statements present fairly the financial position of the OPIC at June 30, 1976 and 1975, and the results of its operations and changes in its capital and reserves and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles. (Author/SC)

3645

03453

REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Examination Of Financial Statements Of The Overseas Private Investment Corporation, Fiscal Years 1976 And 1975

This report comments on the operations of the Overseas Private Investment Corporation for fiscal year 1976. GAO qualified its opinion on the Corporation's financial statements because the adequacy of the amount reserved for losses could not be determined. The qualification carries no adverse criticism of the Corporation's management practices. GAO concludes that the remaining items on the financial statements are stated fairly.

ID-77-24

SEPTEMBER 7, 1977

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

B-173240

To the President of the Senate and the
Speaker of the House of Representatives

This report, which is required by the Government Corporation Control Act, shows the financial condition of the Overseas Private Investment Corporation at June 30, 1976, and discusses pertinent aspects of its operations.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; the Administrator, Agency for International Development; and the President, Overseas Private Investment Corporation.

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL STATEMENTS OF THE OVERSEAS PRIVATE INVESTMENT CORPORATION FISCAL YEARS 1976 and 1975

D I G E S T

The Overseas Private Investment Corporation's Investment Insurance Program is designed to encourage the investment of U.S. capital and resources in developing countries. To accomplish this, the Corporation insures U.S. investors against political risks of loss from expropriation, inconvertibility of currency, and war, revolution, or insurrection.

As of June 30, 1976, the Overseas Private Investment Corporation's maximum contingent liability for insurance was $6.2 billion. The Corporation's management believes that a more accurate representation of its maximum potential exposure to insurance claims is $3.08 billion. (See pp. 3 and 4.)

At June 30, 1976, the Corporation's insurance reserve for losses amounted to $204.7 million. Potential charges against this reserve for claims filed totaled $395.5 million. (See p. 5 to 7.)

The Overseas Private Investment Corporation Amendments Act of 1974 requires that the Corporation eventually become a reinsurer only and that the private sector directly insure overseas investment. The Corporation's endeavors to comply with the legislation include establishing the Overseas Investment Insurance Group, an organization through which private insurance companies join with the Corporation as insurers and also reinsure the Corporation for previously issued insurance. The Corporation also plans to establish a War Risk Insurance Reciprocal. In addition, the Corporation has continued a previously existing contract for reinsurance with Lloyd's of London. (See ch. 3.)

In addition to insuring U.S. investors against political risk loss, the Corporation supports U.S. private investors by

--guaranteeing loans and other investments,

--making loans from its own resources, and

--providing preinvestment assistance.

As of June 30, 1976, the Corporation had outstanding guarantees totaling $157 million and outstanding loans totaling $22 million. (See ch. 4.)

OPINION ON FINANCIAL STATEMENTS

Due to the many uncertainties affecting claims as well as those affecting other liabilities (see notes 7 and 8 to the financial statements), GAO is not able to express an opinion on the adequacy of the amount reserved for losses the Corporation may suffer because of its insurance and guaranty contracts.

In GAO's opinion, except for the adequacy of the amount reserved for losses, the financial statements in the report present fairly the financial position of the Overseas Private Investment Corporation at June 30, 1976 and 1975, and the results of its operations, the changes in its capital and reserves, and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. (See ch. 5.)

Contents

ABBREVIATIONS

AID	Agency for International Development
GAO	General Accounting Office
OPIC	Overseas Private Investment Corporation

CHAPTER 1

INTRODUCTION

The Overseas Private Investment Corporation (OPIC) was created by the Foreign Assistance Act of 1969 (Public Law 91-175, Dec. 30, 1969) to mobilize and facilitate the participation of U.S. private capital and skills in the economic and social development of developing friendly countries. OPIC accomplishes its mission primarily by insuring U.S. investors against political risks. It also guarantees repayment of U.S. investments, makes loans, and finances preinvestment surveys. Before OPIC's creation, these functions were performed by the Agency for International Development (AID).

Since OPIC's inception, the Congress has provided over $204 million to establish and augment capital and reserves. The capital has been designated as a direct investment fund for making loans. The reserves have been established to pay claims under insurance and guaranty contracts. The amounts provided for each purpose are shown below:

Funds Provided By The Congress

Fiscal year	Capital	Insurance reserve	Guaranty reserve	Total
1970	$20,000,000	$ 54,490,484	$40,871,000	$115,361,484
1971	20,000,000	15,509,516	3,240,484	38,750,000
1972	-	12,500,000	-	12,500,000
1973	-	12,500,000	-	12,500,000
1974	-	25,000,000	-	25,000,000
1975	-	-	-	-
1976	-	-	-	-
Total	$40,000,000	$120,000,000	$44,111,484	$204,111,484

OPIC has supplemented these amounts with retained earnings and also has the authority to borrow up to $100 million from the U.S. Treasury to pay insurance claims. If OPIC is unable to meet its obligations, additional appropriations would be required because all its obligations are backed by the full faith and credit of the U.S. Government.

The Overseas Private Investment Corporation Amendments Act of 1974 (Public Law 93-390, Aug. 27, 1974) made OPIC ineligible for future appropriations to augment the insurance reserve unless the reserve falls below $25 million. The act also included a congressional mandate that OPIC eventually transfer its insurer role to private insurance companies and limit its participation to that of reinsurer.

OPIC management is vested in a board of 11 directors. Six directors, appointed by the President with the consent of the Senate, are selected from the private sector, and at least one of these directors is to be experienced in small business, one in organized labor, and one in cooperatives. The other five directors, appointed by the President, are to be U.S. Government officials, including the Administrator of AID, who is the board chairman, and the president of OPIC.

The principal officials and board members of OPIC at December 31, 1976, are included as appendixes I and II. OPIC officials have informally reviewed this report, and their views have been incorporated where appropriate.

CHAPTER 2

INVESTMENT INSURANCE PROGRAM

OPIC's Investment Insurance Program is designed to encourage the investment of U.S. capital and resources in developing countries. The theory behind the program is that providing modest cost insurance coverage against the principal political risks likely to be encountered in developing countries will encourage U.S. private business institutions to participate in foreign-based enterprises. This participation is expected to augment the production of wealth, expand employment, create new markets, increase living standards, and thereby increase the productive and self-sustaining capacities of the developing countries, which, in return, will also benefit the U.S. economy.

The Investment Insurance Program is to provide protection against the three forms of political risk commonly associated with foreign investment. These risks are (a) inconvertibility of currency, (b) expropriation, and (c) war, revolution, or insurrection.

As of June 30, 1976, the maximum and current exposure under OPIC's insurance contracts (including those issued by the Overseas Investment Insurance Group described in ch. 3) was:

	Maximum	Current
Expropriation	$3,506,737	$2,621,685
Inconvertibility	3,091,087	936,863
War risk	2,909,763	2,149,214
Total	$9,507,587	$5,707,762

The difference between maximum and current coverage represents standby coverage which provides an investor the right to purchase current insurance for investment increases and retained earnings. The standby portion may be converted to current coverage on the anniversary date of the contract.

Although the face amount of outstanding insurance was $9.5 billion, OPIC's maximum exposure to political losses was less because many contracts insure the same investment for more than one type of coverage. Elimination of duplicate coverage where OPIC's liability is limited to the highest single maximum coverage produces a maximum contingent liability at June 30, 1976, of $6.2 billion. OPIC believes that a more accurate representation of its liability can be obtained by assuming that only one claim would be brought under each contract for no more than the highest of the various types of coverage currently in force. Based on this assumption, OPIC has computed its maximum potential liability at June 30, 1976, to be $3.08 billion, which would be further reduced by its risk-sharing arrangements with private companies.

As of June 30, 1976, OPIC's insurance program encompassed 1,880 contracts with 469 parent companies and individuals in 80 countries. This included 1,043 older contracts written by AID, 686 contracts written by OPIC, and 151 contracts written by the Overseas Investment Insurance Group.

More than 60 percent of the insurance coverage provided by these contracts was for investments in the nine countries shown below. Each has more than four percent of the world-wide exposure in at least one risk category. The remaining coverage was spread among the other 71 countries.

	Maximum coverage		
	Inconvertibility	Expropriation	War Risk
	(Percent)		
Argentina	5.0	2.3	2.0
Brazil	11.5	12.3	6.0
Republic of China	4.1	4.2	4.5
Dominican Republic	10.0	9.2	10.8
India	4.4	3.4	3.2
Indonesia	6.7	6.2	6.0
Jamaica	1.5	12.9	15.5
Korea	10.7	8.7	13.4
Philippines	7.5	6.4	5.5
Total	61.4	65.6	66.9

An earlier GAO report noted that both AID and OPIC tended to concentrate insurance coverage in a few countries. The report also pointed out that this condition would continue to exist for many years due to the length of the contract's terms. OPIC has worked to alleviate this, and there has been a significant reduction in the levels of concentration in Jamaica and Chile, although the reduction in Chile was partially attributable to expropriation actions by that country. OPIC does not currently insure new projects in these countries.

RECORDED AND POTENTIAL CLAIM CHARGES TO THE INSURANCE RESERVE

OPIC does not record insurance claim charges to its insurance reserve until it pays them, and then records only the amounts paid. Accordingly, all unpaid claims represent potential claim charges. At June 30, 1976, potential claim charges exceeded recorded claim charges.

OPIC records claim charges by reducing its insurance reserve each time a claim payment is made. After making the payment, it strives to recover from the country and, when successful, restores each collected amount to the reserve.

Since OPIC's inception through June 30, 1976, claims paid net of recoveries have totaled $70.2 million. That amount was almost 60 percent of all insurance reserve funds provided by the Congress, and about 25 percent of all funds set aside for the insurance reserve. Sources of the insurance reserve and the effect of claim payments as of June 30, 1976, are shown below:

	Amount (millions)
Insurance reserve funds provided by the Congress	$120.0
Additional funds provided from earnings	154.9
Total funds provided	274.9
Claim payments net of recoveries of $24.3 million	70.2
Reserve balance at June 30, 1976	$204.7

At June 30, 1976, potential claim charges totaled $395.5 million, which exceeded the $204.7 million reserve shown above. In addition, OPIC monitors contracts covering investments when it learns of a host government's action which could lead to claims; but the probability that these contracts will result in claims is not determinable.

As shown below, much of the potential claim charges pertained to claim settlements (including settlements where OPIC guaranteed payments owed U.S. investors by host governments) while the balance pertained to claims not yet settled.

	Amount (millions)
Future payments owed on claim settlement	$ 39.1
Claim settlement guarantees	121.7
Settled claims	160.8
Disputed claims	154.0
Pending claims	80.7
Total potential claim charges	$395.5

On March 31, 1977, the disputed claims shown above as $154 million were settled for $95.1 million. These claims had been filed in 1973 by the Anaconda Company and a subsidiary, whose copper mine investments in Chile had been expropriated. OPIC settled the claims by making a cash payment of $47.5 million, for which OPIC received $27.5 million in promissory notes acquired by an Anaconda subsidiary from the Chilean government in 1974. In addition, OPIC guaranteed the payment of Chilean notes for $47.6 million. Thus, OPIC will remain liable for the half of the settlement covered by guarantees and, if Chile does not meet its obligations as they become payable, OPIC will be required to pay Chile's obligations and will charge the reserve for each payment as it is made.

At June 30, 1976, as shown above, OPIC had a contingent liability of $121.7 million for guarantees covering claim settlement obligations that had not yet become payable. OPIC had previously been required to pay $36.4 million on a guarantee issued as part of a claim settlement with the Government of Chile. The amount paid has been rescheduled and OPIC is recovering from Chile.

OPIC's largest pending claim at June 30, 1976, was an expropriation claim for $66.5 million covering a bauxite investment in Jamaica. The Government of Jamaica had not formally expropriated U.S. bauxite investments in the country but had imposed a bauxite production tax levy and also announced its intention to acquire an interest in the bauxite projects. The investor filing the claim has asserted that the tax has prevented a necessary expansion of operations, but OPIC's counsel believes that the claim has no merit.

Other significant pending claims at June 30, 1976, involved four investments in Vietnam totaling $12.3 million which stemmed from loss of control of the insured enterprise produced by the change in government.

CHAPTER 3

PRIVATE PARTICIPATION IN INSURANCE CONTRACTS

In accordance with provisions of the Overseas Private Investment Corporation Amendments Act of 1974, OPIC has been achieving private participation in its insurance contracts. Most contracts issued on and after January 1, 1975, have been issued by the members of the Overseas Investment Insurance Group--an organization through which private insurance companies participate with OPIC as direct insurers, and also reinsure OPIC for its liability under prior contracts. In addition to establishing the Group OPIC has continued a previous contract for reinsurance with Lloyd's of London.

All participation by private companies, as both insurers and reinsurers, has been limited to expropriation and inconvertibility coverage. OPIC plans to achieve private participation in its war risk coverage by establishing a War Risk Insurance Reciprocal, but as of June 30, 1976, the Reciprocal had not yet been established.

The following examples illustrate the private participation achieved by OPIC as of June 30, 1976, by showing the extent that private companies would share in various annual expropriation losses incurred in a single country.

Expropria-tion loss in one country	Paid by OPIC (net)	Paid by private companies in Group	Paid by Lloyd's as rein-surance	Total paid by private companies	Percent of private partici-pation
(millions)					
$ 20.0	$ 8.8	$3.9	$ 7.3	$11.2	56.2
40.0	17.9	7.8	14.3	22.1	55.2
60.0	37.9	7.8	14.3	22.1	36.8
80.0	57.9	7.8	14.3	22.1	27.6
100.0	77.9	7.8	14.3	22.1	22.1
120.0	97.9	7.8	14.3	22.1	18.4
140.0	117.9	7.8	14.3	22.1	15.8
160.0	137.9	7.8	14.3	22.1	13.8
180.0	157.9	7.8	14.3	22.1	12.3
200.0	177.9	7.8	14.3	22.1	11.0

While these examples apply only to expropriation losses in a single country, they demonstrate a principal applicable to all private participation achieved to date; namely, the maximum limits on the private companies' liability cause their participation to decrease as the loss increases over a certain amount. The same pattern applies to inconvertibility losses, although the percentages of participation are much lower because Lloyd's reinsures very little of those losses. The maximum limits shown above apply also when losses in one country consist of both types of loss.

Similarly, maximum limits have been established on the private companies' annual worldwide liability when either expropriation or inconvertibility losses, or both, are incurred in more than one country. The following examples show the maximum limits on the private companies' annual liability:

Total annual loss in all countries	Paid by OPIC (net)	Paid by private companies in Group	Paid by Lloyd's as reinsurance	Total paid by private companies	Percent of private participation
(millions)					
$ 40.0	$ 17.5	$ 7.8	$14.7	$22.5	56.2
80.0	35.0	15.6	29.4	45.0	56.2
120.0	57.6	15.6	46.8	62.4	52.0
160.0	97.6	15.6	46.8	62.4	39.0
200.0	137.6	15.6	46.8	62.4	31.2
240.0	177.6	15.6	46.8	62.4	26.0
280.0	217.6	15.6	46.8	62.4	22.3
320.0	257.6	15.6	46.8	62.4	19.5
360.0	297.6	15.6	46.8	62.4	17.3
400.0	337.6	15.6	46.8	62.4	15.6

Thus, as of June 30, 1976, the maximum annual amounts payable by the private companies were $22.1 million per country and $62.4 million for all countries, which would be reached when losses totaled $40 million and $120 million, respectively. The actual amounts payable on losses of this magnitude could be less than maximum whenever (1) losses include an inconvertibility loss, (2) multicountry losses include a country loss over $40 million, (3) Lloyd's of London becomes eligible for a "burning cost" adjustment to premiums (see p. 13), and (4) some losses are in partially excluded countries.

At June 30, 1976, expropriation or inconvertibility insurance coverage in 17 countries exceeded the private companies' individual country loss limit of $40 million. Expropriation coverage in these countries averaged $126 million per country, with a top amount of $404 million. Four countries also had inconvertibility coverage over $40 million, averaging $105 million per country, with a top amount of $140 million. The possibility therefore exists that numerous losses could be incurred in which participation by private companies would be relatively small.

The examples above also show that, with respect to expropriation and inconvertibility coverage, OPIC has made progress in achieving the private participation mandated by its 1974 legislation. However, the legislation requires that OPIC eventually cease being an insurer or a manager for other insurers, but at June 30, 1976, OPIC was the principal insurer as well as the manager of the Group. The initial termination dates specified in the legislation are December 31, 1979, in the case of expropriation and inconvertibility coverage and December 31, 1980, in the case of war risk coverage, after which OPIC is required to act solely as a reinsurer of new contracts and a manager of its own existing contracts.

OPIC made some changes after June 30, 1976, which expanded its private participation achievements, but the basic status of its efforts remained essentially the same. The additional changes are described in the following detailed descriptions of each aspect of private participation.

OVERSEAS INVESTMENT INSURANCE GROUP

OPIC organized the Overseas Investment Insurance Group in response to its legislative mandate that insurance activities be transferred to private insurance companies. The Group was established on February 14, 1975, and at inception was composed of OPIC and 13 private insurers. During fiscal year 1976 the Group's membership increased to 17, including 15 U.S. and 2 European insurers (Lloyd's of London and Zurich Insurance Company).

The Group participates in most expropriation and inconvertibility coverage, whether written by AID, OPIC, or the Group, in the same percentage and with the same limits. This is accomplished by its direct underwriting of most new inconvertibility and expropriation insurance coverage and by its reinsurance of these two coverages under existing contracts written prior to the Group's inception (except those written in Ethiopia, Jamaica, and the Dominican Republic and those contracts under which pending claims arose prior to January 1, 1975).

The minimum term of participation in the Group is 1 year. New members may join at the beginning of the fiscal year which commences on December 1. On giving 90 days prior notice, any will raise the private participants' share to 25.5 percent of the Group for its fiscal year 1977 operations.

The Group issues insurance and reinsures policies, with each member assuming only its respective share of the risk. The Group's annual stop-loss limits are $40 million per country and $80 million worldwide. Because OPIC assumed 80.5 percent of Group activities, this means that private members' maximum share of annual losses was $7.8 million per country and $15.6 million worldwide, with OPIC covering the remainder. OPIC also assumes annual losses exceeding the stop-loss limits.

OPIC serves as manager of the Group, providing it underwriting and administrative services. Six OPIC representatives serve on the Group's 12-member board of governors. The remaining members are representatives of the private insurers.

Foreign companies, although fewer in number, have agreed to risk larger sums of money in the Group. During fiscal year 1976, the two foreign companies' shares amounted to 12.5 percent, or 64 percent of the private interest in the Group. This share will increase to 16.9 percent, or 66 percent of the private interest for fiscal year 1977, because of increased participation by the two foreign companies and the addition of two other foreign companies.

The Group's overall underwriting policy is designed to carry out OPIC's legislative mandate. Among the policies adopted by the board of governors are that the Group shall (1) insure investments made by eligible investors in developing countries that are friendly to the United States, (2) require the insured investor to bear the risk of loss of at least 10 percent of the total investment covered under the insurance policies issued by the Group members, (3) give preferential consideration to investment projects involving businesses of not more than $2.5 million net worth or total assets not exceeding $7.5 million and to investment projects in developing friendly countries which have per capita incomes of $450 or less in 1973 U.S. dollars, and (4) decline to issue insurance on behalf of its members to any investment if the manager, OPIC, determines that the investment is likely to cause the investor to significantly reduce U.S. employment due to U.S. production being replaced by production from such investment which involves substantially the same product for the same market as the U.S. production.

As of June 30, 1976, the Group had issued 151 contracts amounting to maximum inconvertibility coverage of $271.6 million, and maximum expropriation coverage of $324.0 million.

The table below shows the countries in which the Group has greatest exposure on the contracts it has written. The Group's remaining exposure is divided among 29 countries.

Inconvertibility		
Country	Maximum coverage	Percentage of portfolio
	(000 omitted)	
Indonesia	$ 38,214	14.1
Trinidad and Tobago	30,143	11.1
Liberia	27,291	10.0
Jordan	21,914	8.1
Republic of China	20,226	7.4
Thailand	13,027	4.8
Brazil	12,496	4.6
Korea	11,378	4.2
Total	174,689	64.3
Worldwide	$271,640	100.0

Expropriation		
Country	Maximum coverage	Percentage of portfolio
	(000 omitted)	
Korea	$ 84,432	26.1
Indonesia	37,843	11.7
Jordan	29,627	9.1
Liberia	27,291	8.4
Trinidad and Tobago	24,891	7.7
Republic of China	20,226	6.2
Brazil	12,496	3.9
	236,806	73.1
	$323,964	100.0

During its first 18 months of operation, OPIC has paid the private Group members $4 million in premiums. As of June 30, 1976, the Group had paid $125,000 on claims, of which $122,000 had been recovered. The Group also has possible liability for potential losses of $10.17 million on claims actually filed against OPIC and the Group.

LLOYD'S OF LONDON REINSURANCE AGREEMENT

In addition to its membership in the Group, Lloyd's of London also has a separate reinsurance agreement with OPIC. Under the agreement in effect in 1976, Lloyd's assumes liability for 5 percent of OPIC's inconvertibility losses and 45.6 percent of OPIC's expropriation losses, up to maximum losses of $40 million in any one country and $120 million worldwide. This means that if OPIC sustains losses equal to loss limits, OPIC could recoup from $2 million in any country and $6 million worldwide (assuming all inconvertibility losses) to $18.3 million in any country and $54.8 million worldwide (assuming all expropriation losses). Lloyd's coverage applies to all OPIC losses, including those which OPIC incurs as a member of the Group. Lloyd's maximum liability as a reinsurer, however, is reduced by the amount of its liability as a member of the Group.

Lloyd's liability as a reinsurer can also be partially offset by OPIC's payment to Lloyd's of additional premium income under a provision called "burning cost" adjustment. A burning cost adjustment is paid whenever Lloyd's losses in any year exceed its premium income for that year. The maximum amount of this adjustment was about $685,000 during 1976.

Since inception of the reinsurance agreement in January 1972, through June 30, 1976, OPIC has paid Lloyd's reinsurance premiums amounting to $11.0 million. During that period, Lloyd's paid one claim amounting to approximately $93,000 and established a letter of credit of $5 million to assure payment of a claim settlement. Lloyd's has possible liability for potential losses of $26.1 million on claims actually filed against OPIC.

A new 3-year reinsurance agreement has been negotiated to cover OPIC from January 1, 1977, to December 31, 1979. The annual maximum liability that Lloyd's will assume for expropriation coverage has increased to $24.75 million per country and $74.25 million worldwide. However, the burning cost adjustment provision was also increased. There was no change in the amount of inconvertibility coverage.

WAR RISK INSURANCE RECIPROCAL

OPIC officials have concluded that no suitable underwriting capacity for war risk insurance presently exists in the private insurance industry. Accordingly, OPIC has begun organizing an association for this purpose called the War Risk Insurance Reciprocal. However, OPIC has been hampered in its endeavor to begin operations because it has been unable to obtain a license from the D.C. Superintendent of Insurance to operate the Reciprocal as an unincorporated insurance association.

The superintendent had declined to act on the application because he lacks authority to issue the requested certificate. It was his opinion that since, in the absence of congressional consent, only Federal officials are empowered to regulate OPIC activities, a reciprocal of which it is a subscriber could not be regulated by the District of Columbia. In response to this judgment, OPIC sought an opinion from the Department of Justice's Office of Legal Counsel. That office concluded that OPIC and the Reciprocal are separate entities and that the Reciprocal could register with the District of Columbia since it was not a Federal organization. This opinion will strengthen OPIC's position.

The planned Reciprocal is a reciprocal insurance exchange in which the insureds insure each other's risks. The Reciprocal is to be composed of OPIC and U.S. investors, eligible for OPIC insurance coverage, who agree to participate in the Reciprocal, whereby the investor (subscriber) pays war risk insurance premiums and makes an advance cash deposit with the Reciprocal equal to a specified portion of the insurance premium on each contract. This cash will become part of the Reciprocal's assets which will be used to cover its losses. The subscribers liability will be limited to its proportional share of the Reciprocal's assets. During the initial stage, OPIC is to assume 60 percent of the liability on each policy issued; the Reciprocal is to assume 40 percent.

The Reciprocal's exposure to liability on the insurance policies issued by it and OPIC and its reinsurance of some of OPIC's existing coverage is to provide it the same percentage of risk and the same loss limits on both insured and reinsured policies. The annual stop-loss limits in this insurance and reinsurance is to be $12.5 million per country and $25 million worldwide. OPIC is to assume all annual losses above these limits.

The insurance/reinsurance relationship between OPIC and the Reciprocal will be similar to that between OPIC and the Group. Under both arrangements OPIC protects the organization against annual losses above specified limits on its insurance and reinsurance. Some difference between the Group and the proposed Reciprocal are:

--The Reciprocal will underwrite war risk insurance. The Group does not.

--Members of the Reciprocal are not insurers or reinsurers by trade, whereas Group members are.

--The Reciprocal will write insurance for its members. The Group issues insurance policies to nonmember investors.

--Each individual Group member is regulated by some governing authority, whereas the Reciprocal, rather than its members, will be regulated by the D.C. Superintendent of Insurance if OPIC's attempts to gain a license are successful.

Although the Reciprocal will be writing only war risk coverage, its bylaws would enable the association to write and reinsure inconvertibility and expropriation coverage as well.

As part of the war risk insurance contract's terms, the investor will be required to participate in the Reciprocal. OPIC has included in its new insurance contracts provisions which will bring about the transfer of a portion of its existing contractual liability on war risk contracts issued since January 1, 1976, to the Reciprocal if and when the Reciprocal begins operations. The Reciprocal will also reinsure 40 percent of OPIC's war risk policies written between July 1, 1972, and December 31, 1975. An investor's failure to become a member of the Reciprocal may result in terminating the war risk insurance contract.

CHAPTER 4

INVESTMENT FINANCING PROGRAM

To complement its program for insuring U.S. investors against political risk of loss, OPIC supports U.S. investment overseas under its investment financing program by (1) guaranteeing loans and other investments made by private U.S. entities, (2) making loans from its own resources, and (3) providing preinvestment assistance.

Amendments to OPIC legislation in 1974 provided that on December 31, 1979, the Corporation will cease operating these programs; thereafter, the President of the United States is authorized to transfer them to other agencies.

INVESTMENT GUARANTEES

OPIC is authorized to issue to eligible investors guarantees on loans and other investments, insuring against business and political risks upon such terms and conditions as OPIC may determine.

The Congress has authorized OPIC to have a maximum of $750 million of guarantees, of which a maximum of $1.25 million shall be for credit union investment. OPIC, however, at the time a guaranty is committed, must have a reserve equivalent to 25 percent of the amount of guarantees then issued or committed to pay for any losses incurred under the program. The reserve at June 30, 1976, was $81.3 million, enabling the Corporation to issue up to a maximum of $325 million in guarantees if so desired.

As of June 30, 1976, OPIC had guarantees covering 23 projects, with $157 million at risk. Following is a summary of the amounts guaranteed by country.

OPIC Guarantees by Country

Country	Number of projects	Project description	Guaranty commitment	Currently at risk
Antigua	1	Hotel	$ 1,155,882	$ 1,155,882
Brazil	4	Fertilizer plant, soybean processing, paper and pulp mill, hygenic paper production	20,410,375	20,410,375
Costa Rica	1	Polyester filament plant	4,000,000	-
Ghana	2	Aluminum smelter; rice, grain, sorghum, and soybean production	13,250,000	5,850,000
Haiti	1	Resort	262,106	262,106
India	2	Fertilizer complex	17,400,450	17,400,450
Indonesia	3	Copper extraction, textile manufacturing, cement plant	62,985,000	45,485,000
Korea	2	Power and topping plant, nylon filament yarn	44,000,000	44,000,000
Nicaragua	1	Hotel	1,598,000	1,598,000
Nigeria	1	Expansion of fishing trawler fleet	494,116	-
Philippines	1	Develop nickel deposit	16,291,666	16,291,666
Sudan	1	Cement plant	12,500,000	-
Thailand	1	Pulp and paper	4,075,000	4,075,000
Zaire	1	Hotel	482,615	482,615
Other: Latin America Regional	1	Intermediate credit institutions	1,250,000	-
Total	23		$200,155,210	$157,011,094

Guaranty commitments for three of the above projects in Costa Rica, Nigeria, and Sudan amounting to $17 million were issued during fiscal year 1976.

Guaranteed loans generally range from $2 million to $25 million. OPIC charges a guaranty fee from 1-3/4 to 2-3/4 percent per year on the outstanding principal amount depending upon the risk assessment.

In addition to guaranteeing loans, OPIC has the authority to guarantee equity. Presently, no such guaranties are being issued. The last equity guaranty issued was during fiscal year 1973 for $525,000. Equity guarantees are rarely issued because OPIC expects the project sponsor to be fully at risk to encourage project success. When OPIC has issued this guaranty, the equity has come from an investor on whom OPIC was not relying to be active in managing the project.

The guaranty program originally was established in fiscal year 1964 and was transferred to OPIC when it began operations.

From the inception of the program through fiscal year 1976, fees collected, including commitment fees, have totaled $16.8 million and claims paid have totaled $21.4 million. OPIC has collected $15.7 million in fees, paid $14 million in claims, and received $1.6 million in claim recoveries. During fiscal year 1976 OPIC paid $800,000 for defaults on interest payments. In the fiscal year 1977 transition quarter OPIC paid $5 million for guaranteed promissory notes on one project in Indonesia. An Indian company will take over the project and OPIC is scheduled to begin recovering its outlay starting in 1979.

As of June 30, 1976, OPIC's outstanding guarantees mature from 1979 through 1993 (1993 is the date of the final loan repayment on its longest guaranty). OPIC was committed to issue guarantees amounting to $43.1 million for six projects. The guaranty agreements for three of these commitments had not been signed.

During the Corporation's formative years, OPIC officials projected that outstanding guarantees would reach approximately $750 million over the first 5 years of operations. Since June 30, 1972, OPIC's outstanding guarantees have decreased from $160 million at June 30, 1970, to $157 million at June 30, 1976. The program has not increased significantly, according to OPIC management, because of efforts to place emphasis on small businesses. Also, the larger older guarantees are being reduced because of repayments on the guaranteed loans.

At June 30, 1976, guarantees currently at risk applying to commitments made under pre-OPIC authority totaled $40.5 million. Guarantees at risk issued under OPIC's authority amounted to $116.5 million.

LOAN PROGRAM

In establishing OPIC, the Congress provided that OPIC may make direct dollar and foreign currency loans to firms privately owned or firms having a mixed public and private ownership. A revolving fund called the Direct Investment Fund was established for this purpose. The Congress provided the fund with $40 million paid in as Corporation capital for which OPIC was required to issue an equivalent amo of capital stock to the Secretary of the U.S. Treasury.

During fiscal year 1976 OPIC increased the fund by $10 million in connection with a transfer of $10 million from retained earnings to capital held by the U.S. Treasury. The Corporation issued a $10 million stock certificate to the Secretary of the Treasury.

Direct investment fund loans are to be repaid within 5 to 20 years and are generally to range from $200,000 to $3 million with varying commercial interest rates, depending on OPIC's assessment of the financial risk. As of June 30, 1976, OPIC's commitments providing direct investment fund loans amounted to $34 million, of which $22 million was outstanding. Thirteen loans totaling $10.7 million were authorized in fiscal year 1976. The following schedule shows the concentration of direct loans at June 30, 1976.

OPIC Direct Loans at June 30, 1976

Country	Number of projects	Project description	Loan commitment	Outstanding loan
Afghanistan	1	Leather tanning factory	$ 450,000	$ 450,000
Belize	1	Rosin and turpentine processing	243,250	243,250
Bolivia	1	Polystyrene plant	1,000,000	-
Brazil	5	Manufacturing facility for drilling equipment, cheese and butter plant and milk processing, paper and pulp mill, soybean production	7,931,250	7,380,990
Costa Rica	2	Vegetable processing and freezing facility, polyester filament plant	2,502,000	1,502,000
Ecuador	1	Tourist cruise vessel	500,000	-
Ghana	3	Rice, grain, sorghum, and soybean production; tuna cannery	2,157,500	307,500
Guatemala	2	Metal culvert manufacturing facility, nursery operation	1,000,000	200,000
Haiti	2	Furniture manufacturing, resort	562,106	262,106
Indonesia	3	Coconut plant, textile manufacturing	2,000,000	1,500,000
Kenya	1	Impala farm ranch, additional cattle	65,000	65,000
Korea	2	Parts for integrated circuits, debt and equity investments	735,000	735,000
Nigeria	1	Expansion of fishing trawler fleet	705,884	-
Pakistan	1	Vial and ampoule production (glass products)	1,250,000	-
Panama	1	Expansion of fish catch production	1,400,000	1,000,000
Rwanda	1	Tea factory	535,000	-
Sudan	1	Construction operation of cement plant	2,675,000	-
Republic of China	1	Motorcycle assembly	62,500	62,500
Other:				
Africa Regional	2	Subloans to flour mills; lease financing	3,291,506	3,291,506
East Asia Regional	1	Private subloans	1,888,889	1,888,889
Latin America Regional	1	Private subloans	3,000,000	3,000,000
Total	34		$33,954,885	$21,888,741

OPIC had received proceeds from the sale of participation certificates in four of the above loans. The unpaid balance on such certificates amounted to $3 million at June 30, 1976. OPIC has guaranteed full payment of the participated portion of the loans. This liability for outstanding participation certificates is included in the amount of investment guaranty currently at risk.

Interest rates on outstanding loans ranged from 7 to 12 percent. Final repayments of principal and interest on these loans become due during fiscal years 1979 through 1988.

Since inception of the program through fiscal year 1976, interest earned under the program amounted to $5 million, and OPIC has not written off any loans. However, several projects have encountered financial difficulties and operating problems. Of 21 projects on which disbursements have been made, OPIC has identified 6, involving $5.4 million in disbursed funds, as being problem loans. Five of these projects, totaling $3.9 million, were delinquent on loan principal or interest payments as of June 30, 1976. Past due payments for four of these projects totaled $600,000. The fifth project has been in liquidation since January 1975. Principal and interest involved amounts to over $2 million. After fiscal year 1976 management authorized the recording of loan losses estimated to be $800,000 by December 31, 1976. This estimate was expected to be increased to $2 million by the end of fiscal year 1977.

PREINVESTMENT SURVEYS

OPIC's preinvestment survey program seeks to increase investment by U.S. private enterprise in developing countries by encouraging U.S. investors to survey investment opportunities. Preinvestment assistance consists essentially of sharing the cost of identifying suitable investment opportunities, of proving their feasibility, and of determining their acceptability to the host government. OPIC will pay up to 50 percent of the survey costs ($50,000 maximum) of an investment opportunity if, after making the survey, the U.S. investor determines that it is unwilling to make the investment and reports to OPIC on its survey results. If, on the other hand, the investor decides to undertake the project surveyed, it must bear the full survey cost.

The program has been designed to stimulate investment in countries where the per capita income is less than $450 and in small business investment in all less-developed countries. Therefore, OPIC makes its funds for surveys available to smaller U.S. firms in all less-developed countries and to larger U.S. firms only in the poorest countries.

During fiscal year 1976 there were 16 surveys in progress. Of these surveys, six resulted in negative decisions and three resulted in positive decisions to undertake the project surveyed. Decisions had not yet been reached for the others. Under the cost-sharing arrangement, OPIC's share of the expenses on the 16 surveys was $168,592, covering disbursements made over the past several years.

CHAPTER 5

SCOPE OF AUDIT AND

OPINION ON FINANCIAL STATEMENTS

We have examined the balance sheet of the Overseas Private Investment Corporation as of June 30, 1976, and the related statements of income, changes in capital and reserves, and changes in financial position for the year then ended. This examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841 *et seq.*) and in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported on the Corporation's financial statements for fiscal year 1975.

The Overseas Private Investment Corporation insures and guarantees U.S. investors against potential risks of loss of their overseas investments due to expropriation; inconvertibility of currency; and war, revolution, or insurrection. As of June 30, 1976, the Corporation's insurance reserve for such losses amounted to $204.7 million. However, as explained in note 7 to the financial statements, potential charges against this reserve for claims filed totaled $395.5 million, consisting of direct liabilities related to claim settlements ($39.1 million), claim settlement guaranties ($121.7 million), pending claims ($80.7 million), and unresolved disputed claims ($154.0 million). In March 1977, OPIC settled the unresolved disputed claims for $95.1 million.

Section 237(c) of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2197(c) (Sup. V, 1975)) provides that the full faith and credit of the United States is pledged for the full payment and performance of obligations incurred by the Overseas Private Investment Corporation under its insurance and guaranty contracts. Thus, if claim settlements exceed available reserves, the Corporation will be required to either borrow funds from the U.S. Treasury or request supplementary funds from the Congress to pay the claims.

The Corporation can augment its reserves with retained earnings, but it does not use its earnings solely for that purpose. During fiscal year 1976, it increased funds earmarked for making loans by transferring $10 million from retained earnings to the Direct Investment Fund. (See note 4.) Accordingly, that amount was no longer available for transfer to the insurance and guaranty reserves should augmentation be needed.

Due to the many uncertainties affecting the foregoing claims, as well as those affecting liabilities the Corporation has on other insurance and guaranty contracts (see notes 7 and 8 to the financial statements), we are not able to express an opinion on the adequacy of the amount reserved for losses the Corporation may suffer because of its insurance and guaranty contracts.

In our opinion, except for the adequacy of the amount reserved for losses, the accompanying financial statements present fairly the financial position of the Overseas Private Investment Corporation at June 30, 1976 and 1975, and the results of its operations, the changes in its capital and reserves, and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

FINANCIAL STATEMENTS

STATEMENT OF INCOME

Overseas Private Investment Corporation

	For the year ended June 30	
	1976	**1975**
Revenues		
Political risk insurance premiums	**$ 32,570,017**	$ 30,280,937
Less—Premiums on shared risks	**5,287,549**	4,149,573
	27,282,468	26,131,364
Investment guaranty fees	**2,668,494**	2,787,188
Direct investment interest	**1,419,522**	1,248,756
Other fees	**540,356**	126,185
	31,910,840	30,293,493
Interest	**21,851,944**	17,948,471
Revenues	**53,762,784**	48,241,964
Administrative Expenses		
Salaries & benefits	**2,777,740**	2,657,831
Contractual services	**1,067,528**	1,389,871
Rent, communications & utilities	**392,722**	325,869
Travel & representation	**177,047**	265,836
Printing, reproduction & supplies	**136,754**	171,830
Depreciation & amortization	**19,831**	24,035
Administrative Expenses	**4,571,622**	4,835,272
Net Income	**$ 49,191,162**	$ 43,406,692

The accompanying notes are an integral part of this statement.

BALANCE SHEET

Overseas Private Investment Corporation

For the year ended June 30

Assets	**1976**	**1975**
Cash and Investments:		
Cash	**$103,075,830**	$105,347,456
U.S. obligations at cost plus accrued interest (which approximates market—Note 3)	**254,278,749**	202,858,955
Foreign currency (U.S. equivalent—Note 9)		13,213,859
	357,354,579	321,420,270
Direct Investment Fund loans outstanding (Note 4)	**21,888,741**	21,132,371
Accrued interest & fees	**2,891,293**	2,804,669
Accounts receivable	**6,690,259**	7,070,238
Prepaid reinsurance premiums	**1,320,252**	1,178,216
Furniture, fixtures and leasehold improvements (at cost less depreciation and amortization of $121,694 in 1976 and $164,323 in 1975)	**164,206**	91,678
Assets acquired in claims settlements (net of provision for unrealizable assets of $78,302,574 in 1976 and $86,113,529 in 1975—Note 5)	**43,160,538**	43,160,538
Total Assets	**$433,469,868**	$396,857,980

SCHEDULE 2

Liabilities, Capital & Reserves

	For the year ended June 30	
	1976	**1975**
Liabilities:		
Accounts payable & accrued expenses	**$ 1,372,824**	$ 1,577,783
Claims payable	**860,000**	7,851,176
Direct liabilities related to claims settlements (Note 5)	**43,160,538**	43,160,538
Participations in DIF loans	**2,921,481**	4,127,665
Fees held pending claims determinations	**224,008**	105,020
Unearned premiums	**17,582,749**	16,489,943
	66,121,600	73,312,125
Contingent liabilities (Notes 6, 7 & 8)		
Capital & Reserves:		
Capital held by U.S. Treasury (Note 4)	**50,000,000**	40,000,000
Insurance reserve (Notes 6 & 7)	**204,661,986**	176,492,185
Guaranty reserves (Notes 6 & 8)	**81,346,147**	81,690,838
Retained earnings	**31,340,135**	12,148,973
Foreign currency allocation from U.S. Treasury (Note 9)		13,213,859
	367,348,268	323,545,855
Total Liabilities, Capital & Reserves	**$433,469,868**	$396,857,980

The accompanying notes are an integral part of this statement.

SCHEDULE 3

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

Overseas Private Investment Corporation

For the Two Years Ended June 30, 1976

	Capital	Insurance Reserve	Guaranty Reserve	Retained Earnings	Foreign Currency Allocation	Total
Balance June 30, 1974	$40,000,000	$180,593,820	$80,533,667	$ 8,742,281		$309,869,768
Net income				43,406,692		43,406,692
Payments on claims settlements		(41,814,485)	(7,047,309)			(48,861,794)
Recoveries on prior years' claims settlements		5,712,850	204,480			5,917,330
Transfers from retained earnings		32,000,000	8,000,000	(40,000,000)		
Foreign currency allocation from U.S. Treasury					$13,213,859	13,213,859
Balance June 30, 1975	40,000,000	176,492,185	81,690,838	12,148,973	13,213,859	323,545,855
Net income				49,191,162		49,191,162
Payments on claims settlements		(860,000)	(816,954)			(1,676,954)
Recoveries on prior years' claims settlements		9,029,801	472,263			9,502,064
Transfers from retained earnings	10,000,000	20,000,000		(30,000,000)		
Foreign currency returned to U.S. Treasury					(13,213,859)	(13,213,859)
Balance June 30, 1976	$50,000,000	$204,661,986	$81,346,147	$31,340,135	—0—	$367,348,268

STATEMENT OF CHANGES IN FINANCIAL POSITION

Overseas Private Investment Corporation

	For the year ended June 30	
	1976	**1975**
Source of Funds:		
Net Income	**$ 49,191,1[illegible]**	$ 43,406,692
Depreciation and amortization	**19,831**	24,035
Net recoveries (payments) on claim settlements	**7,825,110**	(42,944,464)
Increase (decrease) in:		
Unearned premiums	**[illegible],092,806**	1,410,160
Fees held pending claims determinations	**119,988**	(2,898,487)
Decrease (increase) in:		
Accounts receivable	**379,979**	(5,550,963)
	58,627,876	(6,553,027)
Application of Funds:		
Foreign currency allocation returned to (received from) U.S. Treasury	**13,213,859**	(13,213,859)
Additions to furniture & fixtures	**92,359**	14,167
Increase (decrease) in:		
DIF loans outstanding	**756,370**	(874,192)
Prepaid reinsurance	**142,036**	(71,044)
Accrued interest & fees	**96,824**	1,234,688
Decrease (increase) in:		
Accounts payable & accrued expenses	**204,959**	([illegible]35,951)
Claims payable	**6,[illegible]01,176**	4,302,620
Participations in DIF loans	**1,206,184**	371,809
	22,693,567	(8,571,762)
Increase in Cash and Investments	**$ 35,934,309**	$ [illegible],018,735

The accompanying notes are an integral part of this statement

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Background of Corporation

Title IV of the Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1969 (Public Law 91-175) (hereinafter called the "FAA"), authorized the creation of the Overseas Private Investment Corporation (hereinafter called OPIC) as a wholly-owned U.S. Government corporation. The interim administration of the programs and activities of OPIC was delegated to the Agency for International Development from December 30, 1969 to January 19, 1971, at which time Executive Order 11579 transferred to OPIC all obligations, assets and related rights and responsibilities of predecessor programs and authorities.

The Overseas Private Investment Corporation Amendments Act of 1974 (Public Law 93-390), which was enacted on August 27, 1974, amends OPIC legislation in several respects. Among its provisions are an authorization for OPIC to borrow up to $100 million from the United States Treasury to discharge OPIC insurance or reinsurance liabilities and an expression of intent that entities other than OPIC participate in the direct underwriting of political risk insurance. Pursuant to this mandate, OPIC (1) participates with private insurers in the Overseas Investment Insurance Group, which functions as a first-loss pool covering expropriation and inconvertibility risks on new insurance and most of OPIC's existing insurance portfolio and (2) is organizing a separate unincorporated insurance association of insureds to underwrite certain war risk insurance.

Note 2: Summary of Principal Accounting Policies

The significant policies are summarized below:

Income Recognition: Revenue from political risk insurance contracts is recognized as income ratably over the contract year. All other revenue is recognized when earned in accordance with generally accepted accounting principles.

Depreciation and Amortization: Furniture and fixtures are depreciated on a straight-line basis over a 10-year life. Leasehold improvements are amortized over the life of the related lease.

Payments to Insureds on Claims Settlements: Payments to investors on claims settlements are charged directly to the applicable Insurance or Guaranty Reserve at the time a payment is made or the payment obligation is irrevocably established. All recoveries made in the course of liquidating assets acquired in the settlement of claims are credited to the Reserve against which the related claims were charged.

Assets and Direct Liabilities Related to Claims Settlements: OPIC may acquire assets, or an interest in assets, as a result of claims settlements. For assets acquired by reason of claims payments charged to the Insurance or Guaranty Reserve, full provision has been made for the possibility that value may not be realized. To the extent that OPIC has interests in assets derived by virtue of OPIC's undertakings to make claims payments in advance of receipt of the payments to which OPIC is subrogated, corresponding liabilities are reflected in the financial statements.

Note 3: Investments in U.S. Obligations

In conformance with Section 239(d) of the FAA, OPIC's investments in U.S. obligations are limited to funds derived from fees and other revenues. The funds available for investment were $249,506,660 at June 30, 1976 and $198,978,108 at June 30, 1975. Of these funds $248,825,315 and $197,454,099, respectively, represent the cost of investments included in the Balance Sheet.

Note 4: Direct Investment Fund

The FAA authorized the establishment of a Direct Investment Fund (DIF), that consisted initially of the $40,000,000 paid in as capital of the corporation, to be used to make loans repayable in United States dollars. This fund is charged with realized losses and credited with realized gains and such additional sums as determined by the Board of Directors. During 1976 OPIC increased the DIF by $10,000,000 in connection with the transfer of $10,000,000 from retained earnings to capital held by U.S. Treasury.

The status of DIF on June 30, 1976 and 1975 was as follows.

	1976	1975
	(Millions of Dollars)	
DIF Capital	50	40
Less uncommitted	19	15
Outstanding commitments	31	25
Less undisbursed portion	12	8
Net loans outstanding	19	17

Proceeds received by OPIC from the sale of participations were credited to the DIF for further lending in accordance with Sections 231(c), 235(b) and 239(d) of the FAA. The figures above are net of such participations, which amounted to $3 million in 1976 and $4 million in 1975. Pursuant to provisions of Sections 239(d) and 234(b) of the FAA, OPIC has guaranteed full payment of the participated portion of DIF loans. This liability for outstanding participations is included in the amount of investment guaranty outstanding (Note 8).

Note 5: Assets and Direct Liabilities Related to Claims Settlements

As a result of claims settlements, OPIC owns or has an interest in certain assets (primarily notes receivable) having a value, based upon the related claims payment, of $121,463,112. Of these assets, $78,302,574 were acquired by reason of claims payments charged to the Insurance and Guaranty Reserves and full provision has been made on OPIC's books for the possibility that their value may not be realized. OPIC has received partial recoveries on claims to which these assets relate, and management intends to exercise legal remedies necessary to collect on these assets.

The balance of OPIC's claims-related assets, valued at $43,160,538, represents an interest in future payments due under certain promissory notes guaranteed by OPIC under claims settlements and its guaranty authority. OPIC will have to make payments under these guaranties prior to receipt of payment from the obligors. OPIC's payment obligations are reflected in the liability section of the Balance Sheet and their due dates are shown in Notes 7 and 8. Approximately $36 million of this sum represents an interest in notes of Sociedad Minera El Teniente S.A. to be purchased by OPIC from the holder in 1978, and as to which the Republic of Chile is obligated to make payments in semi-annual installments through June 1986.

Note 6: Statutory Reserves and Full Faith and Credit

Section 235(c) of the FAA established separate funds known as the Insurance Reserve and the Guaranty Reserve for the respective discharge of liabilities under investment insurance and under guaranties issued under Section 234(b) of the FAA and similar predecessor guaranty authority. Both Reserves may be replenished or increased at any time by transfers from OPIC's retained earnings or by new Congressional appropriations. OPIC's retained earnings as of June 30, 1976, available for transfer to the Insurance or Guaranty Reserve, were $31,340,135.

Should OPIC's funds not be sufficient at any time to discharge OPIC's obligations arising under investment insurance or guaranties, as the case may be, Congress would have to appropriate funds to fulfill the pledge of full faith and credit to which such obligations are entitled. Standing authority for such appropriations is contained in Section 235(f) of the FAA.

All investment insurance given by OPIC, all guaranties given by OPIC in connection with the settlement of claims under investment insurance, and all guaranties referred to in the first paragraph above constitute obligations of the United States of America. The full faith and credit of the United States of America is pledged for the full payment and performance of such obligations.

Note 7: Obligations Backed by Insurance Reserve

The Insurance Reserve as of June 30, 1976 totaled $204,661,986 and OPIC has cash and U.S. obligations substantially in excess of this amount. Claims against the Insurance Reserve could arise from certain liabilities shown on OPIC's Balance Sheet and certain contingent liabilities.

Direct liabilities related to claims settlements and chargeable against the Insurance Reserve amount to $39,085,538 as of June 30, 1976. OPIC will be required to make payments to discharge these liabilities in the following fiscal years and in the following amounts:

Fiscal Year(s)	OPIC Liability
1978	$36,008,718
1980-1982	3,076,820
	$39,085,538

Contingent obligations of OPIC which could give rise to future additional claims on the Insurance Reserve include obligations under (A) guaranties issued in settlement of claims arising under investment insurance contracts, (B) pending claims under investment insurance contracts, (C) unresolved disputed claims and (D) outstanding investment insurance contracts. These four categories of contingent claims are discussed in more detail in the balance of this Note.

(A) Claims Settlement Guaranties

Pursuant to Sections 237(i) and 239(d) of the FAA, OPIC has in some instances settled claims arising under investment insurance contracts by issuing payment guaranties in substitution for the insurance obligations being discharged. These claims settlement guaranties represent contingent obligations of OPIC backed by the Insurance Reserve.

The contingent liability of OPIC as of June 30, 1976 under these guaranties, including liability as to interest, was $121,676,169. If the principal obligors default in full, and if OPIC does not exercise certain prepayment rights, OPIC would be liable during the following fiscal years for the following amounts:

Fiscal Year(s)	Amount of Liability
1977	$ 20,693,714
1978-1982	76,213,328
1983-1988	24,769,127
	$121,676,169

Of the total OPIC contingent liability under claims settlement guaranties, $104,571,471 represents guaranties of obligations either incurred by the Government of Chile in compensation agreements with OPIC insureds or recognized by the Government of Chile in respect of debt previously insured by OPIC.

(B) Pending Claims

OPIC follows a policy of recording investment insurance contract claims as financial liabilities only upon determinations that such claims are valid. In the case of most expropriation claims, the expropriatory action must continue for a period of one year before the claim matures. Formal applications for compensation are generally filed only with respect to mature claims and specify the particular events which have occurred and which, in the opinion of the investor, subject OPIC to liability. OPIC has six months, from the date the investor's application for compensation is complete, to process the claim and make its determination.

The total amount of compensation requested from OPIC in connection with claims so filed, but not yet determined, is $80.7 million, arising out of nine claims, eight of which were under expropriation coverage and the other under inconvertibility. OPIC has not made the necessary final determinations as to any of these claims.

In addition to requiring formal applications for claimed compensation, the OPIC contracts require investors to notify OPIC promptly of host government action which the investor has reason to believe is or may become an expropriatory action. Careful investor compliance with this notice provision will sometimes result in their filing notice of events that do not mature into expropriatory actions.

The highly speculative nature of these notices both as to the likelihood that the event referred to will constitute expropriatory action and the amount of compensation, if any, that may become due leads OPIC to follow a consistent policy of making no reference to such notices in its financial statement. Any claims that might arise from these situations are, of course, encompassed in management's estimate that maximum potential exposure, prior to reinsurance, under existing investment insurance contracts is $3,080 million (Note 7D).

In addition to the foregoing there is a suit pending against OPIC that is believed to be without merit. In the unlikely event of recovery thereunder no material adverse effect on OPIC's financial position would result.

(C) Unresolved Disputed Claims

Two expropriation claims totalling $154 million submitted in 1972 by The Anaconda Company and a subsidiary remain unresolved and are in litigation. Because of apparent bias or undue influence in the arbitral proceedings, OPIC is seeking to set aside an arbitral decision finding OPIC liable (with the amount to be determined by further proceedings). OPIC, upon the advice of legal counsel, believes that it is reasonable to expect that the arbitration award heretofore entered will be vacated and that the question of OPIC's liability will be presented to a new arbitration panel. If OPIC is required to pay compensation, it would be entitled to a proportional share in the substantial payment in cash and notes received by Anaconda in a 1974 settlement with the Government of Chile.

(D) Political Risk Investment Insurance

OPIC issues investment insurance under limits fixed by the legislative authorization in the FAA and prior authorities. The utilization of these authorized amounts as of June

30, 1976 (excluding obligations under guaranties issued in settlement of claims) was as follows:

	Legislative Authorizations	Uncommitted	Outstanding
	(Millions of Dollars)		
Prior Authorities	3,012	—	3,012
FAA Section 235	7,500	4,354	3,146
	10,512	4,354	6,158

Since OPIC may and often does insure the same investment against three different risks (inconvertibility of currency; expropriation; and war, revolution or insurrection) it is theoretically possible that an investor could make successive claims under more than one coverage with respect to the same investment. The outstanding amount reflects this theoretical possibility and in addition includes provisions for insurance as to which OPIC is not currently at risk but is contractually obligated to provide upon the investor's future request to cover increases in investment and retained earnings.

The outstanding amount pursuant to Legislative Authorizations is of little use in evaluating realistically OPIC's maximum exposure as of June 30, 1976 to insurance claims, because it includes insurance for which OPIC is not currently at risk and because it is improbable that multiple payments would be made for each investment. Management believes that a more accurate representation of OPIC's maximum potential exposure to future claims arising from existing investment insurance contracts can be obtained by assuming that only one claim would be brought under each contract and that the coverage under which the claim would be brought would be the coverage with the highest amount of current insurance in force. Based on this assumption, management believes OPIC's maximum potential liability to claims as of June 30, 1976 is $3,080 million. After giving effect to OPIC's risk sharing arrangements with the Overseas Investment Insurance Group (Note 1) and reinsurance with Lloyd's of London, this maximum exposure is further reduced to $3,019 million.

Note 8: Obligations Backed by Guaranty Reserve

Section 235 of the FAA requires OPIC to have, at the time OPIC commits itself to issue any guaranty under Section 234(b) of the FAA, a Guaranty Reserve equal to at least 25 percent of guaranties then issued and outstanding or committed under 234(b) and prior authorities. As of June 30, 1976, the $81,346,147 Guaranty Reserve (representing cash and marketable securities, except for miscellaneous items which in the aggregate were not material) exceed by $31,307,345 the required minimum reserve. (See Note 6 for description of the Guaranty Reserve and full faith and credit status of OPIC guaranties.) Guaranties under prior authorities and Section 234(b) of the FAA include guaranties of debt, equity, and participation in DIF loans. The outstanding commitments at June 30, 1976 are shown in the chart below:

	Legislative Authorization	Uncommitted	Total Outstanding Commitments	Currently at Risk (Net of Repayments)
Prior Authorities	$ 40,537,865		$ 40,537,865	$ 40,537,865
FAA 234(b) and 235	750,000,000	$590,382,655	159,617,345	116,473,229
	$790,537,865	$590,382,655	$200,155,210	$157,011,094

In July 1976 OPIC acquired $5,000,000 principal amount of OPIC guaranteed promissory notes, together with accrued interest thereon, resulting in a charge against Guaranty Reserve. In August 1976 the OPIC Board of Directors voted to allocate $6,000,000 to the Guaranty Reserve from Retained Earnings.

The Balance Sheet and foregoing tabulations include a direct liability of $4,075,000 chargeable against the Guaranty Reserve. This liability is payable in ten semiannual principal installments of $407,500 beginning December 31, 1976. When OPIC makes payments, it will acquire notes which have been rescheduled pursuant to an agreement with the foreign enterprise.

Note 9: Foreign Currency Allocation

The allocation of 31,817,200 Pakistani rupees (U.S. equivalent $3,213,859) and 5,556,000 Egyptian pounds (U.S. equivalent $10,000,000) made available to OPIC in 1975 from excess currencies held by the U.S. Treasury were returned to the Treasury during fiscal 1976.

APPENDIXES

PRINCIPAL OFFICIALS OF THE OVERSEAS PRIVATE INVESTMENT CORPORATION AT DECEMBER 31, 1976

Board of Directors	Position	Tenure of office From	To
Daniel Parker	Chairman	a/10-12-73	Present
Marshall T. Mays	Director	9-26-73	Present
Charles W. Robinson	Director	1-22-75	11-09-76
Charles A. Cooper	Director	10-29-74	11-15-75
James A. Baker	Director	10-20-75	5-07-76
Allie C. Felder, Jr.	Director	1-19-71	Present
Gustave M. Hauser	Director	1-19-71	Present
James A. Suffridge	Director	1-19-71	Present
Donley L. Brady	Director	11-26-73	Present
Wallace F. Bennett	Director	6-20-75	Present
Herbert Salzman	Director	9-26-73	Present
Edwin H. Yeo III	Director	6-30-76	Present
William D. Rogers	Director	11-09-76	Present
Edward O. Vetter	Director	9-23-76	Present

Officers			
Marshall T. Mays	President and Chief Executive Officer	9-26-73	Present
David Gregg III	Executive Vice President	11-19-73	Present
Cecil Hunt	General Counsel (acting)	8-15-76	Present
Gerald Morgan	General Counsel	11-23-75	8-14-76
Hilliard A. Zola	Vice President for Insurance	9-28-76	Present
George R. Cooper	Vice President for Insurance	7-16-73	7-31-76
Anthony J. Hope	Vice President for Finance	1-11-75	Present
Erland H. Heginbotham	Vice President for Development	1-27-76	Present
Howard E. Houston	Vice President for Development	4-14-75	9-08-75
Robert L. Jordan	Director for Public Affairs	7-01-76	Present

Officers	Position	Tenure of office From	To
Thomas A. Sedlar	Vice President for Public Affairs	7-06-71	6-30-76
Paul J. Muller	Treasurer	4-09-73	Present

a/Member of the Board since Jan. 19, 1971. Became *ex officio* Chairman upon appointment as Administrator of the Agency for International Development.

OVERSEAS PRIVATE INVESTMENT CORPORATION

BOARD MEMBERS

AT DECEMBER 31, 1976

Daniel Parker	Administrator, Agency for International Development
Marshall T. Mays	President and Chief Executive Officer, Overseas Private Investment Corporation
Allie C. Felder, Jr.	Vice President, Cooperative League of the U.S.A.
Gustave M. Hauser	President, Warner Cable Corporation
James A. Suffridge	President Emeritus, Retail Clerks International Association
Donley L. Brady	Attorney and business executive
Wallace F. Bennett	United States Senator (retired)
Herbert Salzman	Former Executive Vice President Overseas Private Investment Corporation
Edwin H. Yeo III	Under Secretary of Treasury for Monetary Affairs
William D. Rodgers	Under Secretary of State for Economic Affairs
Edward O. Vetter	Under Secretary of Commerce

48685