



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

neral
~~450.06~~
74-0115
APR 17 1974
095906

B-173240



The Honorable Les Aspin
House of Representatives

Dear Mr. Aspin:

Your letter of January 11, 1974, requested that we investigate a \$415,000 loan made by the Overseas Private Investment Corporation (OPIC) to help finance the luxury resort, Habitation Leclerc in Port-au-Prince, Haiti, and determine whether OPIC (1) properly approved the project under its rules, which you described as requiring that no private source of capital be available, (2) violated its authority regarding the intended beneficial effect of the assistance on the Haitian economy, and (3) misused appropriated funds.

OPIC's Board of Directors decided to help finance the project by approving the loan on April 24, 1972. At that time, the Board also approved the sale of participations in the loan to private investors (sale of loan maturities), which were to be accompanied by OPIC's guaranty covering payment of principal and interest to the purchasers of the participations. The Board took these steps to provide a prompt commitment to the project and, at the same time, to recover OPIC's loan funds from private investors.

OPIC subsequently consummated the loan and the sale of participations in accordance with the Board's approval action. It signed the loan agreement on August 1, 1972, fully disbursed the \$415,000 by February 2, 1973, and almost immediately recovered all the disbursed funds from private investors through the sale of guaranteed participations in the loan. As a result, OPIC's support of the project has primarily been to guarantee that the private investors would be repaid.

This method of obtaining the use of private capital was financially advantageous to OPIC. In guaranteeing a loan made directly to a project by a private investor, OPIC's policy has been to charge an annual fee of not more than 2.75 percent. OPIC's annual earnings from the Habitation Leclerc project, however, will be 4.75 percent, consisting of 12 percent interest on the loan less 7.25 percent interest payable to the purchasers of the participations. OPIC obtained the added earnings without assuming an increased risk;

701937

095906

BEST DOCUMENT AVAILABLE

the \$415,000 represents less than one fourth of the \$1.7 million estimated total investment in the project. OPIC's risk is secured by the financed property as well as by personal guarantees obtained from the project sponsors.

OPIC's financing of the project was authorized by various sections of the Foreign Assistance Act of 1961, as amended. It was authorized by section 234(c) to make loans and by section 234(b) to issue investment guaranties. Section 231(c) requires it "to broaden private participation and revolve its funds through selling its direct investments to private investors whenever it can appropriately do so on satisfactory terms". In addition, section 239(d) specifically cites OPIC's authority to sell, with or without its guaranty, participation certificates for the purpose of carrying out section 231(c).

Whether the private capital could have been obtained without OPIC's support is a question that cannot be answered with certainty. However, while the law requires that OPIC consider the availability of private capital, neither the law nor any OPIC rule of which we are aware prohibits OPIC from making a loan even though private capital may be available. Obviously, the project sponsors determined that OPIC's support was needed, as evidenced by their willingness to seek and pay for it. OPIC did not question the project sponsors' expression of need, but justified its support primarily on the development potential of the project.

In agreeing to support the project, OPIC believed it was promoting significant economic and social benefits for Haiti. This objective was within OPIC's legislative purpose, which is: "to mobilize and facilitate the participation of United States private capital and skills in the economic and social progress of less developed countries and areas".

Immediate economic and social benefits expected by OPIC were:

1. Haitian foreign exchange earnings of at least \$657,800 a year.
2. A \$2,151,006 annual impact on the Haitian local economy.
3. Employment of at least 80 Haitians, accompanied by needed job training and development of language skills.

In addition, OPIC expressed the belief that the project had potential for reversing Haiti's poor image as a tourist attraction. This belief was based on changes in the Haitian political climate that improved its tourist potential and the rationale that special incentives might be necessary to attract the initial flow of tourists to spread the word about the changed conditions. OPIC's expectations in this regard relied heavily on the ability of the principal U.S. sponsor of the project to attract a celebrity following for his ventures. OPIC believed that where celebrities chose to spend their vacations would attract media attention, thereby promoting a tourist boom in Haiti.

OPIC has determined that tourism can be especially important to Haiti, the least developed country in the Western Hemisphere, because few industries are so labor intensive or have lower technological requirements. In support of this view, OPIC cited that the U.S. Embassy in Port-au-Prince approved the project as being consistent with local economic and social development priorities and the Haitian Government exempted the project from paying income taxes and two-thirds of the customs duties on major operating equipment during the first 10 years of operations. OPIC reported that even the existing hotel owners in Port-au-Prince favored the project and regarded it as a key in establishing the country as an attractive tourist attraction.

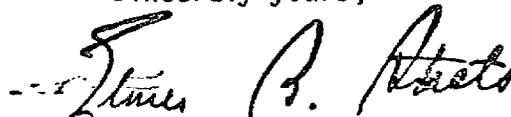
We believe that increased tourism, including that of affluent tourists, can be an appropriate vehicle for promoting the development of a country and that private U.S. capital and skills can be effectively used in promoting such development. We believe also that OPIC's approval of the Habitation Leclerc project was a legitimate attempt to accomplish those objectives in Haiti.

We have therefore concluded that OPIC properly approved the project under its rules, did not violate its authority, and did not misuse appropriated funds.

For your further information, we understand construction delays and increased costs have caused financial difficulties for the project. OPIC has collected only one of the first two scheduled loan payments, and agreed to defer the unpaid installment until June 1974. If at that time the project continues to have financial problems, OPIC plans to vigorously pursue collection action.

Although this report may be of interest to others, we will not release it unless you agree or publicly announce its contents.

Sincerely yours,



Comptroller General
of the United States