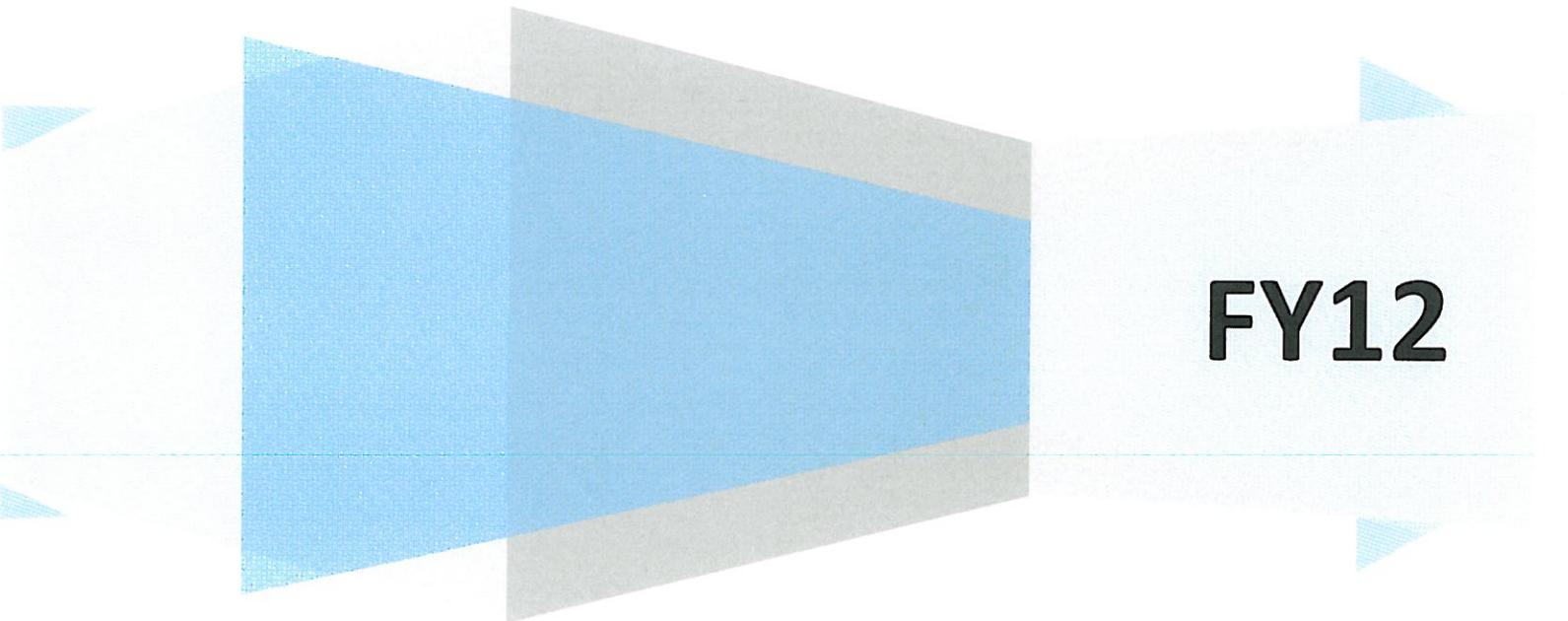


Overseas Private Investment Corporation



Annual Report

Office of Accountability



FY12

1. NOTE FROM THE DIRECTOR

I am very pleased to present the FY2012 Annual Report for OPIC's Office of Accountability (OA). During FY12, I shifted gears from processing a case in Mexico to addressing a set of internal and external opportunities and challenges facing the OA. Some highlights for FY12 include the following:



- The OA closed the Cerro de Oro case in Mexico after receiving OPIC Management's response to the appraisal report for the compliance phase of that case.
- The OA broadened its approach to outreach by making presentations to OPIC's Board and staff, participating with other accountability mechanisms in the Rio+20 Summit, collaborating with the State Department in communicating information about the OA to U.S. embassies, and initiating a wholesale revision and update of the OA's public website.
- The OA initiated a process to update the procedures it uses in delivering its primary services of problem-solving and compliance review.
- The OA engaged in a range of advisory services for OPIC Management, including the preparation of a corporate sustainability statement for OPIC.

Of course, I continue to benefit greatly from the experience and wisdom of the other independent accountability mechanisms, whose network has been strengthened as a result of our collaborations around Rio+20.

Looking ahead to FY13, besides any new cases that come to the OA, I expect to further expand outreach activities including to OPIC's clients, continue the procedures update process, and advise OPIC Management on a range of topics.

Keith Kozloff

Director, Office of Accountability

2. WHAT WE DO / SUMMARY OF SERVICES

The Office of Accountability (OA) was established in 2005 as the independent accountability mechanism within OPIC. The OA provides project-affected parties and clients with access to a transparent, independent, predictable and fair avenue for addressing disputes that may arise around the environmental or social effects of OPIC-supported projects. The OA offers two primary services:

PROBLEM SOLVING

The OA's problem-solving service seeks to build trust and otherwise create conditions conducive for parties (e.g. affected communities and project clients) to resolve concerns and conflicts in a mutually acceptable manner.

COMPLIANCE REVIEW

OA reviews OPIC's compliance with applicable project-level environmental, social worker rights and human rights policies and procedures, with the goal of improving project outcomes. OA compliance reviews focus on how OPIC assures itself of a project's compliance with applicable environmental and social policies.

Independent from OPIC's line management, OA reports directly to OPIC's President and CEO, and provides a direct avenue for concerns to be heard at the highest level of decision-making at OPIC. Its independence allows the OA to provide objective findings and recommendations aimed at improving environmental, social, worker rights and human rights outcomes of OPIC.

3. CASE MANAGEMENT

The OA had one active case in FY12.

MEXICO CERRO DE ORO HYDROELECTRIC PROJECT

The Cerro de Oro Hydroelectric Project, co-owned by Comexhidro and the Latin Power III Fund, is planned to be a 15 MW hydroelectric power facility located in Tuxtepec Municipality in the State of Oaxaca, Mexico. OPIC provided financing for this project in early 2010. In November 2010, OA received a complaint from local Mexican communities about the potential social and environmental impacts and risks of the project. The communities requested both problem-solving and compliance review services.

As summarized in the OA’s FY11 annual report, the problem solving process yielded several important benefits including the development of an alternative design for the project that minimizes its impact on water resource. Despite these benefits, the OA-convened dialogue process was not able to establish sufficient trust between the parties for them to reach an agreement about the future of the project. Accordingly, the OA concluded the problem-solving process in November, 2011 (see the OA’s 2011 Annual Report).

Upon concluding the problem-solving phase, the OA Director initiated a compliance appraisal of the project, the purpose of which is to determine if a full compliance review is appropriate. Although the OA elected to not a conduct a full review, its appraisal report contains several substantive findings. After the OA submitted its report to OPIC’s CEO in April 2012, OPIC Management issued a response to each of the recommendations as follows.

OA Findings:

- OPIC is encouraged to strengthen its social review and project screening procedures in order to identify and migrate risks associated with a project’s social context.
- Environmental and social experts for OPIC-supported projects, particularly for Category A projects, are recommended to have explicit community development and social analysis expertise and experience.
- The results of an analysis of the technical and financial feasibility of alternatives should be included in the Environmental and Social Impact Assessment of Category A projects.

OPIC Management Response:

- OPIC has implemented a revised Environmental and Social Policy Statement on October 15, 2010, supplementing with new policy implementing procedures and a risk characterization matrix for risk identification; In addition, OPIC has hired a full time, social impact specialist to provide additional in-house expertise.
- OPIC requires that the private equity fund manager maintain at all times an environmental and social management system, which consists of policies, procedures and resources adequate to implement the OPIC requirements. The senior private equity fund officers have overall responsibility for environmental and social matters.
- Consistent with IFC Performance Standard 1, OPIC does require that Environmental and Social Impact Assessments include an alternative analysis.

- OPIC is encouraged to reinforce its project monitoring procedures for determining that grievance mechanisms and communication strategies are appropriately implemented on the ground, especially at sensitive phases of the project cycle.
- With respect to future Category A projects for which disclosure and consultation processes occurred before or outside of OPIC's involvement, OPIC should review relevant procedures to confirm that basic objectives of consultation were achieved. OPIC's procedures should provide for remedial measures to fill any gaps it identifies in legacy consultation or compensation procedures.

- For Category A projects, OPIC proposes to require clients to provide evidence that a grievance mechanism has been developed and implemented prior to consent or disbursement.
- OPIC agrees with the recommendation to continually review its procedures for evaluating and assessing community consultation and social issues.

For more detail about the Cerro De Oro Hydroelectric Project case and the results from the problem-solving and compliance review stages of it, please visit our OA website at www.opic.gov/who-we-are/office-of-accountability.

4. OUTREACH

In FY12, the Director evaluated the OA's outreach strategy and established the following goals:

- Increase the awareness of the OA's services among potential constituent groups (project affected communities, project workers and OPIC clients).
- Increase the understanding of the OA's services among OPIC staff as contributing to institutional risk management and learning.
- Increase the awareness by OPIC and its clients of measures that can be taken to enhance local support for projects and reduce the risk that conflicts will arise.

With these in mind, the OA Director undertook the following actions:

- Presented the OA’s services at internal staff meetings of each OPIC’s department to enhance understanding of the OA’s services and stimulate open communication.
- Reached out to appropriate officers in US embassies in OPIC-eligible countries via State Department cable to generate initial awareness of OA services.
- Updated the OA’s external website to facilitate access to the OA’s services by potential constituents.
- Participated in the 2012 annual meeting of the independent Accountability Mechanisms (IAMs) held in Luxembourg and a related civil society event.
- Participated with the other accountability mechanisms in the United Nations Rio+20 Summit in Rio de Janeiro, Brazil.



The collective participation in the Rio+20 Summit by the independent accountability mechanisms resulted in strengthened collaboration among them including preparation and distribution of two papers, branded them as an international network, and established organizational relationships with other international networks.

5. OA OPERATIONAL PROCEDURES UPDATE

The Director has initiated an evaluation and update of the OA’s procedures for processing problem-solving and compliance review requests. The OA’s current procedures were developed and implemented in 2005, prior to the accumulation of any practical operating experience.

The process is contemplated to be conducted in phases according to the following timeline.

- FY12 and FY13 Procedure evaluation, scoping and gap analysis
- FY13 Public input on a draft procedures update
- FY14 Finalization of the updated procedures

In February, 2012, the OA Director convened an external experts workshop to receive feedback on the procedures used to provide the OA's services. Comments were collected and further discussed with experts at a follow up session in June, 2012. In the Spring, 2012, the Director also commissioned an external telephone survey of individuals involved in past OA cases. (In the future, the OA will routinely conduct user surveys of its case services.) In addition, the Director received feedback from civil society stakeholders during the Rio+20 Summit and from other accountability mechanisms during their annual meeting. The OA commissioned a study of its operating procedures in comparison with those of other accountability mechanisms. Finally, the OA Director solicited input on its procedures from OPIC staff and management.

6. ADVISORY SERVICES

Besides providing problem-solving or compliance review services focused on specific projects, the OA has the ability to provide advice to OPIC management on topical issues related to environmental and social sustainability. In FY12, the OA Director worked closely with OPIC Management to craft the Corporate Sustainability Statement to enhance OPIC's brand and commitment on sustainability. The role of accountability is referenced in the Statement, for example, in the following excerpt:

“Transparency and accountability are key parts of OPIC's philosophy of sustainable investment. When stakeholders have access to information about an investment, affected communities are consulted, and mechanisms for resolving local conflicts are available, then private investment does better at promoting stable and democratic societies.”

To download the complete statement, go to: <http://www.opic.gov/opic-action/overview/renewable-resources/OPIC-Corporate-Sustainability-Statement>.

Also during FY12, the OA Director provided informal input to OPIC's Office of Investment Policy on policy issues such as “free, prior, informed consent”.

7. RESOURCES

For FY12, the Office of Accountability had one full-time staff, its Director. The Director is authorized to hire consultants and incur other expenses as needed for both case-specific and other functions. Besides the Director's salary and benefits, the OA incurred out of pocket expenses of \$15,083 in FY12 for compliance review and outreach activities.