OVERSEAS PRIVATE INVESTMENT CORPORATION
WASHINGTON, D.C. 20527, USA

OFFICE OF THE
PRESIDENT

Overseas Private Investment Corporation
Management Response

to the

Office of Accountability Review:
Buchanan Renewables Fuel and Energy Projects in Liberia

September 2014

The Office of Accountability ("OA") Review and Report on Buchanan Renewables Fuel and Energy Projects ("Report") in Liberia is unprecedented in OPIC's history. It is a self-initiated inquiry into high-profile projects that were no longer an active part of the Corporation's portfolio.

OPIC requested this review to derive lessons-learned for OPIC and other actors engaged in complex development projects in post-conflict countries. Without a doubt, the Report will help the Corporation achieve this goal.

We commend the OA for the breadth and rigor of this Report. The OA spent almost six months assimilating vast amounts of information from across the life-cycle of the projects and prioritizing the issues of greatest relevance. The OA research in Liberia and among independent sources proved instrumental in putting the decisions taken before, during, and after the projects into the appropriate context. The economic, legal, social, and environmental contexts of the Buchanan projects were, by any measure, complex and fluid, far more so than most OPIC projects.

OPIC appreciates the judicious and transparent approach taken by the OA in delineating the instances in which complaints seemed to be fully grounded in available information, instances where information was partial, and instances where it was lacking entirely.

OPIC applauds the manner in which the OA conducted this process. Far from a rush to judgment, the OA engaged stakeholders in a patient, respectful and appropriately dispassionate manner.

OPIC is pleased to see that the Report did not uncover any failure by OPIC to apply the policies and procedures that were in place at the time. OPIC also appreciates the opportunity that this review has afforded to examine the Corporation's current policies and practices as they relate to very complex projects. This Report has generated, and will continue to generate, constructive discussions as we strive to guide our projects toward positive development outcomes.

Of course, OPIC does not concur with every depiction of circumstances and events, every causality determination or every recommendation contained in the Report. It should be noted that many recommendations in this Report had, in fact, been enacted prior to the release of the report. Others are

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currently underway. That said, this Report offers many very constructive and actionable recommendations and will make an invaluable and ongoing contribution to the Corporation, achieving its intended purpose.

Background

When the Buchanan projects were approved, the United States was eager to support Liberia's recovery from a devastating civil war with every tool available. The context was extremely difficult, and these were complex projects. Working in such environments requires a careful balance. OPIC needs to support investment in even the most difficult places. OPIC also needs to ensure high standards, while being mindful of the potentially high costs to the businesses we are mandated to support, particularly U.S. small business clients.

In 2008, Liberia, a nation of approximately 3.5 million people, was still struggling to recover from the devastating effects of a civil war. The toll of the conflict was staggering: 300,000 had been killed; nearly 1 million people had been displaced; scores of children had been pressed into military duty; and combatants often had used torture and rape to terrorize communities. The economic cornerstones of the nation, ranging from cash crops of smallholder farmers to basic infrastructure - such as roads and highways – were largely destroyed. Most of the consumer commerce was being conducted informally or through the black market. Rubber tree farming was one of the few income earners of economic significance for the nation. Many displaced families had returned home to find their small farms occupied by ex-combatants, and poverty had become so severe that those with rubber trees were resorting to "slaughter tapping," which drains so much latex from a tree as to accelerate its death.

These projects were intended to address some of those critical challenges. If successful, multiple development impacts were expected to flow from the projects. Small, medium, and large farmholders from the counties of Grand Bassa and Margibi would be able to contract with the biofuel processing plant to sell old rubber trees and begin replanting for sustainable farming. Hundreds of workers would be employed processing and transporting the biofuel. Roads, bridges, and ports would be improved through investments by Buchanan. European power plants would be able to buy bio-feedstock of lower carbon intensity. Buchanan would invest in local improvements such as schools and orphanages. More broadly, the rubber tree sector in Liberia would be put back on a sustainable footing. In fact, while the project was, operational, many of these benefits were actually realized.

The withdrawal of this private sector investment from Liberia was extremely disappointing for all involved – for OPIC, the investors, and, indeed, the local stakeholders and government of Liberia. With the benefit of this experience, and the lessons drawn from this Report, the next time OPIC is faced with similar circumstances, it will be with a policy framework that is stronger, a more robust credit culture, an improved understanding of the risks that exist in these environments, and some concrete suggestions on how better to support such critical investments.

OPIC finds that specific issues raised by the Report fall into three broad categories: policies, processes (*i.e.*, implementation), and resources.

Policies

OPIC is in a very different place from a policy perspective than it was when the Buchanan projects were initially reviewed and approved. OPIC published its Environment and Social Policy Statement ("ESPS") in 2010, followed shortly thereafter by the related implementing procedures. The ESPS was the result of extensive consultation and established a new set of standards for environmental and social impact review by adopting the Performance Standards of the International Finance Corporation ("IFC"), the private sector arm of the World Bank. These Performance Standards are considered by most to represent international best practice.

The ESPS policy framework includes a number of important features that more thoroughly address some of the key risks that the Report identified. For example, the Performance Standard on environmental and social assessment includes guidance on how to identify project-affected people and establish baseline information against which negative impacts may be monitored more closely. The Performance Standards also establish procedures for retrenchment, ensuring certain protections for employees when companies terminate operations or reorganize.

OPIC's ESPS also establishes a risk management approach to protect project employees that goes beyond the IFC's requirements. The "Special Consideration" classification for projects with the potential for heightened risks to workers, increases the due diligence, monitoring, and reporting requirements for projects with certain risk characteristics. If OPIC were to consider approval of the Buchanan projects today, they almost certainly would be treated with this new Special Consideration classification. While OPIC has strong protections in place for project workers, this Report offers OPIC an opportunity to consider whether there are similarly strong protections in place for other potentially affected people.

Among the gaps that the Report identifies in OPIC's current policy framework is in its approach to human rights-related risks. While the IFC Performance Standards address human rights as a cross-cutting issue in environmental and social impact assessment, the experience with the Buchanan projects suggest there are certain circumstances in which an increased level of diligence would be in order. OPIC welcomes this recommendation and will consider its implementation in our review of the ESPS over the coming year.

Processes

The Report recommends that OPIC's management continue to ensure robust adherence to credit and policy risk processes as a counterweight for high priority projects. It is true that these projects were a priority for OPIC. They represented an opportunity to support private investment in Liberia, to support job growth in a particularly poor part of a very poor country, to support more efficient use of an abundant local resource, to increase power in a country where access to this basic infrastructure is a luxury, and to increase that energy production in a more environmentally sustainable way. As the Report rightly points out, the importance of addressing these issues was a priority within the organization.

Since the approval of these projects, OPIC has strengthened its project review process with revised credit procedures, underwriting guidelines, and a strengthened credit policy department. Related Directives, which guide Corporation policies and procedures also have been reviewed and revised.

The Report suggests that OPIC could benefit from a better system for ensuring that development objectives are realized, or supplementary monitoring when there are increased risks to the project achieving those objectives. Development outcomes are only realized when projects succeed financially.

OPIC's enhanced credit procedures and the Performance Standards that OPIC now follows both emphasize the importance of a management capacity assessment. OPIC also more regularly engages additional monitoring support during project construction and operation through independent consultants. This more rigorous due diligence and oversight gives OPIC an additional tool to support projects in meeting their development objectives.

Resources

The Report recommends that more OPIC resources be in place when faced with a fragile country and sector context, and that OPIC seek grant or technical assistance partners in such situations. We agree on both counts. Management is working hard to obtain more resources to bring it in line with peer DFIs. In the meantime, while OPIC's own human resources are highly constrained, OPIC has significantly deepened its engagement with other agencies of the U.S. government and other Development Finance Institutions ("DFI") to join forces, leverage resources and create efficiencies. Such sharing of due diligence, independent consultants or technical assistance on local community support efforts enables OPIC to stretch its resources. We welcome this recommendation and will continue to seek out such opportunities when possible, especially if it helps to ensure the viability of these crucial projects.

The Report also recommends that OPIC explore opportunities to work with local civil society organizations to promote good development outcomes. OPIC has some experience with this, including engaging NGOs in labor audits on projects with heightened risk for workers. OPIC can build on this experience, working with U.S. Embassy counterparts to identify such organizations, and encouraging clients to make use of this important resource. OPIC also can continue its work with other development partners to foster the spirit of cooperation, especially in countries like Liberia where the donor community plays a key role with the government in critical post-conflict rebuilding efforts. So again, we welcome this recommendation.

I offer my sincere thanks for the excellent work of the Office of Accountability. This Report will help OPIC learn lessons and augment its effectiveness and impact in the future.

Sincerely,

Elizabeth L. Littlefield