



OFFICE OF INSPECTOR GENERAL  
U.S. Agency for International Development

# OPIC Investments Increased Chile's Energy Capacity, but Weak Processes and Internal Controls Diminish OPIC's Ability To Gauge Project Effects and Risks

**AUDIT REPORT 9-OPC-19-002-P**  
**FEBRUARY 1, 2019**

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## MEMORANDUM

DATE: February 1, 2019

TO: Overseas Private Investment Corporation, President and CEO, Ray W. Washburne

FROM: Global and Strategic Audits Division, Director, Van Nguyen /s/

SUBJECT: OPIC Investments Increased Chile's Renewable Energy Capacity, but Weak Processes and Internal Controls Diminish OPIC's Ability To Gauge Project Effects and Risks (9-OPC-18-002-P)

This memorandum transmits the final report on our audit of OPIC's Chile energy sector portfolio. Our audit objectives were to review OPIC's energy projects in Chile to (1) determine if OPIC involved the U.S. private sector and supported local country development in alignment with its mission; (2) assess the inputs, data, and analyses used to assess and approve the projects; and (3) assess the process and internal controls OPIC used to identify and mitigate certain risks. In finalizing the report, we considered your comments on the draft and included them in their entirety, in appendix H.

The report contains 16 recommendations to improve OPIC's strategic approach to advancing its mission and U.S. foreign policy and to strengthen its internal control system. After reviewing information you provided in response to the draft report, we consider 2 resolved but open pending completion of planned activities (recommendations 12 and 13), and the remaining 14 unresolved (recommendations 1-11 and 14-16).

For recommendations 12 and 13, please provide evidence of final action to [OIGAuditTracking@usaid.gov](mailto:OIGAuditTracking@usaid.gov).

Please work with us to resolve the remaining recommendations.

We appreciate the assistance you and your staff extended to us during this audit.

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## INTRODUCTION

The Overseas Private Investment Corporation (OPIC) was established to complement U.S. development assistance objectives, by mobilizing and facilitating “the participation of U.S. private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies.”<sup>1</sup> OPIC offers several financial services to clients, including political risk insurance, direct loans, investment guarantees, and investment funds.

OPIC holds approximately \$900 million in U.S. guarantee investments that support the construction and operation of six renewable energy projects in Chile. Chile’s renewable energy generation accounts for an estimated 11 percent of Chile’s total energy supply—a major shift supported by Chile’s Non-Conventional Renewable Energy (NCRE) Law enacted in April 2008. The law aims to fulfill Chile’s future energy requirements via sources such as solar, wind, tidal, biomass, geothermal, and small hydroelectric plants.

Given the significant U.S. investment in OPIC’s Chile energy portfolio and concerns previously identified by the Office of Inspector General (OIG) in prior work,<sup>2</sup> we conducted this audit to (1) determine if OPIC involved the U.S. private sector and supported local country development in alignment with its mission; (2) assess the inputs, data, and analyses used to assess and approve OPIC’s energy projects in Chile; and (3) assess the process and internal controls OPIC used to identify and mitigate certain risks. Chile serves as a case study for examining OPIC’s processes, and as appropriate, we identified broader weaknesses that extended beyond the Chile energy projects.

To conduct our work, we examined OPIC’s statutory requirements and its actions in meeting those requirements. We also tested the strength of OPIC’s internal controls in assessing and approving projects, mitigating risks, and advancing its mission. In addition, we held over 100 interviews with Chilean Government officials, subject-matter experts, financial institutions, project companies, and staff at the U.S. Embassy in Santiago. We also interviewed OPIC staff in Washington, DC, and reviewed relevant documentation. We did not assess the financial viability of Chile projects or whether these projects should or should not have been approved. See appendix A for more detail on our scope and methodology.

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## SUMMARY

OPIC-supported U.S. business investments in Chile’s solar energy market have contributed to the country’s increased capacity to generate nonconventional renewable energy. These investments align with Chile’s plans to decrease its dependence on oil, while limiting the environmental impact of traditional energy sources. The investments are also credited with

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<sup>1</sup> The Foreign Assistance Act of 1961, Section 231, as amended, codified in Title 22 of the United States Code, Section 2191.

<sup>2</sup> OIG previously identified control concerns related to development impact, protection of human and labor rights, environmental protection, and other activities.

contributing to reducing Chile's historically high energy costs and to growth in employment, local capacities, private market investment, and educational opportunities in renewable energy. In addition, each of the six Chile energy projects met OPIC's U.S. private sector requirements at the approval phase. However, energy grid constraints have limited the transmission of increased energy supply, and the global drop in copper demand, a major Chilean export, has contributed to decreased profitability of previously lucrative branches of the transmission grids. Variables such as these have created financial challenges for current and future energy generation facilities across Chile, including those supported by OPIC.

While the Chile projects complied with requirements for U.S. company involvement, they demonstrated a lack of rigor in OPIC's processes for approving projects, assessing progress in achieving its mission, and reporting results. For example, Chile's per capita income exceeded restrictions called for in OPIC's enabling statute. According to OPIC, Chile was still open for investment because the projects aligned with its goal to invest in the renewable energy sector, and local banks were unable or unwilling to finance the projects at commercially feasible terms. However, OPIC has invested in many other higher income countries. As of September 2016, 63 percent of OPIC's projects worldwide were in high- and middle-income countries. Another major weakness in OPIC's assessments and approval process is a lack of documented support for applicants' stated benefits. While these statements directly inform applicant ratings, OPIC does not require applicants to provide support, putting ratings at risk for inflation—weaknesses that extend beyond the Chile projects. For example, all six Chile projects received high ratings for employee benefits, but only one company confirmed that it provided the employee benefits stated. Finally, OPIC generally lacked a performance management framework for assessing and aligning prospective projects with its strategic goals, and it did not have a process for formally articulating how its projects advance U.S. foreign policy.

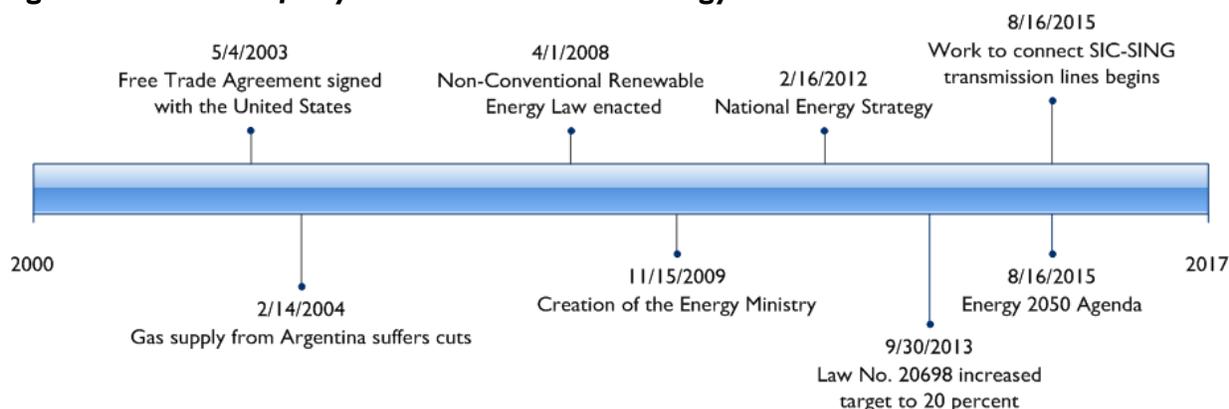
OPIC's process for identifying and mitigating risks in its Chile energy portfolio revealed broader weaknesses in OPIC's internal control system. According to OPIC, its priority is increasing commitments to address stakeholder priorities, manage its limited resources, and fulfill its self-sustaining requirement, with less focus on nonfinancial-related internal controls. However, weak internal controls hinder OPIC's ability to ensure that its projects protect human and labor rights and that it mitigates environmental risks. Poor business practices for updating policies and procedures, managing records, and evaluating results underlie many of the weaknesses we identified. For example, OPIC's official records management system did not include key documents for managing and monitoring Chile projects, including documents used in assessing and approving project deals and transfer procedure checklists, which confirm that all records are properly filed and handed over to the relevant offices. In general, each office maintains applicant and other third-party documents in separate computer drives, making it difficult for other offices to readily access critical information. Moreover, OPIC does not require certain documentation, including documented reviews of borrower deliverables and third-party monitoring reports, and OPIC does not have a system to capture external information, including the receipt of project deliverables.

We are making 16 recommendations to improve OPIC's strategic approach to advancing its mission and U.S. foreign policy and to strengthen its internal control system.

## BACKGROUND

Historically, Chile has relied heavily on imported energy—averaging 60 percent of its supply—subjecting Chile’s energy sector to the volatility of international market prices and supply restrictions. In 2004, Argentina—Chile’s primary energy import partner—cut its gas supply import, causing a massive energy shortage. Chile’s reliance on imported energy also contributed to high energy prices in the country. In 2014, Chile’s mining sector paid the second-highest price for energy compared to other mining countries, and twice as much as its direct competitors. To address these types of challenges, Chile’s government passed various laws, including the 2008 NCRE law, and developed long-term state policies that focused on developing a renewable energy market in the country (see figure 1). Under the NCRE law, Chile initially set a target that 10 percent of its supply would derive from renewable sources by 2024. Chile later increased this target to 20 percent by 2025.

**Figure 1. Timeline of Key Moments in Chile’s Energy Sector**



Note: Sistema Interconectado Central (SIC) and Sistema Interconectado del Norte Grande (SING) are Chile’s two major transmission grids.

Source: OIG analysis of OPIC documentation.

Chile’s privatization process, which was set in motion in the 1980s, created the country’s current flexible and open energy sector market. Chile’s energy sector is 100 percent privately owned and operated by both foreign and local companies, which are involved in all parts of the market.<sup>3</sup> The government—through the Ministry of Energy—plays a supervisory and regulatory role.

Chile’s electricity transmission grid is divided into four systems that cover three regions: SING covers the north region, SIC covers the central and south region, and Aysen Electrical System and Magallanes Electric System cover the extreme south region. Combined, SING and SIC transmit 99 percent of the country’s power.

Chile’s energy market has three price structures: regulated, free, and spot. The spot market works as a short-term market where energy demand and supply are immediate; the regulated

<sup>3</sup> Energy generation is dominated by Endesa, Colbun, AES Gener, Suez, and others. Transelec, a Canadian company, owns and operates 78 percent of Chile’s SIC transmission grid and 100 percent of the SING. The main distribution companies are Chilectra, CGE Distribution, Chiliquinta Energy, SAESA, and others.

and free markets operate in the long-term. (For further explanation of the markets, see appendix B.)

Regardless of the price structure, energy generation plants are typically connected to the national transmission grid. Generation companies that have energy contracts do not directly link their power supply to clients; rather, the contracts provide agreed upon terms of pricing.

The Chilean Government's current push for increased renewable energy supply has been largely successful, with its energy sector seeing reduced prices and increased supply. Plans are also under way to connect the SING and the SIC transmission grids to reduce the now constant supply overload following the substantial energy supply increase. The initial deadline for completion was set for 2019.

## OPIC Project Approval Process

OPIC became involved in the Chile energy projects around 2012. OPIC offers clients involved in foreign development projects around the world political risk insurance, direct loans, investment guarantees and investment funds, and other financial services. To obtain these services, prospective clients submit project applications to OPIC, which uses a formal process to assess and approve applications (see figure 2) . At the initial pre-screening stage, prior to filing a formal application, potential applicants may have informal discussions with OPIC staff who check for preliminary threshold, credit, and eligibility issues. After applications are submitted, OPIC starts its formal review process, which includes policy and credit risk due diligence checks.

**Figure 2. OPIC's Project Approval Process**



Source: OIG analysis of OPIC documentation.

OPIC's Office of Investment Policy (OIP) evaluates project risks, including environmental impact and labor and human rights vulnerabilities.<sup>4</sup> OIP also evaluates each applicant's projected developmental impacts using criteria it developed. After OPIC formally approves a project and the deal is signed, it closes the application process and makes its first disbursement of funds. The project is then transferred to other OPIC departments to conduct monitoring and other oversight responsibilities, while OIP maintains responsibility for monitoring OPIC's portfolio to

<sup>4</sup> OIP is made of up four divisions: Monitoring and Reporting, Environment, Human and Labor Rights, and Economic Impact Analysis.

ensure the continued protection of human and labor rights and to mitigate environmental risks. OIP is also responsible for assessing the actual developmental impacts of its projects.

Each project deal is structured by the parties involved, which generally include a project sponsor; project company; lender; engineering, procurement, and construction; and operations and maintenance. (See appendix C for more explanation on the parties involved.)

## OPIC’s Chile Energy Sector Portfolio

OPIC’s Chile energy sector portfolio is made up of five photovoltaic (PV) solar power plants and one run-of-river hydroelectric power plant.<sup>5</sup>

The construction of each solar power plant involved installing solar modules on tracking structures to follow the sun and building a substation that would link the plant to transmission lines. The construction time ranged between 6 to 12 months. The project costs for the solar plants ranged from \$167 million up to \$366 million (see table I).

The Alto Maipo hydroelectric power plant, which was still under construction during our fieldwork, includes the construction of two hydroelectric stations: the Alfalfa II power station with a planned generation capacity of 264 megawatts (MW) and the Las Lajas power station with 267 MW of planned capacity. Both stations involve the excavation and construction of underground tunnels and shafts for a total length of over 67 kilometers (roughly 42 miles) in the Maipo River basin, a source for the Santiago Region’s drinking water supply. The project costs initially totaled an estimated \$2 billion, of which OPIC guaranteed an estimated \$245 million.

**Table I. OPIC’s Chile Energy Portfolio at Approval Phase**

Energy Type	Project Name	U.S. Project Sponsor	OPIC Guarantee (millions)	Total Project Cost (millions)
Solar	San Andres	SunEdison, Inc.	\$62.9	\$167
Solar	PV Salvador	SunPower Corp	155	221
Solar	Generación Solar	SunEdison, Inc.	48.9	234.8
Solar	Amanecer	SunEdison, Inc.	147.5	313
Solar	Luz Del Norte	First Solar, Inc.	230	366
Hydropower	Alto Maipo	AES Corporation	245	Up to 2,000
<b>Total</b>			<b>889.3</b>	<b>3,301.8</b>

Source: OIG analysis of OPIC project documents.

<sup>5</sup> Photovoltaic solar generates electricity directly from sunlight through the use of panels made up of semiconductor material.



*The Luz del Norte solar power plant is operated by First Solar and located outside of Copiapó in Chile's Atacama Region.  
Photo: OIG (October 11, 2016)*

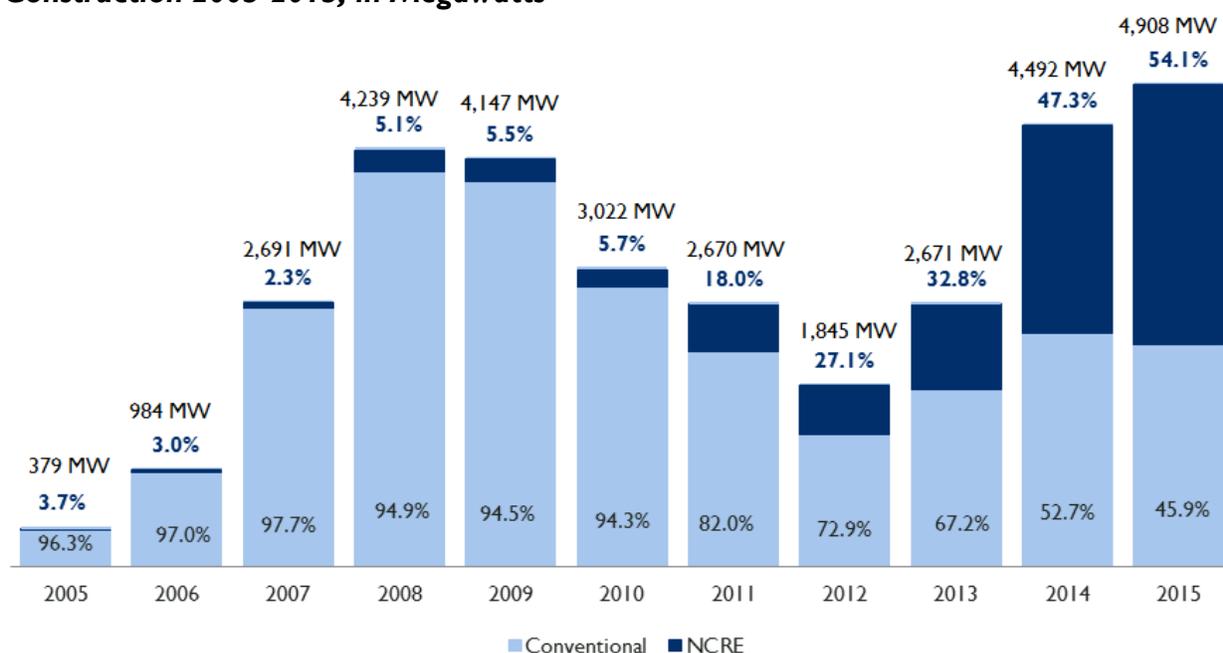
## OPIC SUPPORTED U.S. BUSINESS INVESTMENTS THAT INCREASED THE CAPACITY OF CHILE'S RENEWABLE ENERGY SECTOR

OPIC facilitated U.S. business investments in Chile's solar energy market—investments that aligned with the Chilean Government's plans to (1) diversify energy sources and reduce its reliance on fluctuating oil prices, (2) manage increasing demand, and (3) limit the environmental impact of traditional energy sources. These U.S. private capital investments have significantly contributed to increases in Chile's NCRE and overall available energy supply, which in turn has contributed to declines in Chile's historically high energy costs. The U.S. companies involved held major equity in the projects at the approval phase, meeting OPIC's U.S. participation requirements for supporting projects.

### OPIC Solar Energy Portfolio Contributed to Progress Made Toward Chile's Target for Nonconventional Renewable Energy

From 2010 to 2015, Chile's potential capacity to generate NCRE from electricity projects under construction increased (see figure 3). In addition, during this timeframe, the percentage of potential capacity generated from NCRE compared to conventional energy projects increased from 5.7 percent to 54.1 percent. OPIC-supported solar energy projects contributed to this increase. Actual NCRE supply from this increased capacity made up 11 percent of Chile's total energy generation in 2015—putting Chile on track to meet its 2025 target of 20 percent.

**Figure 3. Potential Energy Generation Capacity From Chile's Electricity Projects Under Construction 2005-2015, in Megawatts**



Source: Adapted from data presented in Chile's National Energy Commission's "2015 Energy Statistical Yearbook."

The PV solar projects supported by OPIC were among the first entrants into Chile’s large-scale renewable solar energy market. The OPIC-supported solar plants totaled an installed energy generation capacity of 433 MW when placed into service between 2014 and 2015 (see table 2). The power plants feed energy outputs directly into the national transmission grid. Four of the solar plants connect to Chile’s SIC transmission grid, while the other—Generación Solar—is connected to Chile’s SING transmission grid. Upon completion, Alto Maipo will also connect to SIC.

**Table 2. Installed Capacity of OPIC-Supported Chile Solar Plants**

<b>Project Name</b>	<b>Transmission Connection</b>	<b>Installed Capacity (MW)<sup>a</sup></b>	<b>Operational Date</b>
San Andres	SIC	50.6	2014
Amanecer	SIC	101	2014
PV Salvador	SIC	68	2015
Generación Solar	SING	72.8	2015
Luz Del Norte	SIC	141	2015

<sup>a</sup> Installed capacity refers to the maximum amount of electricity a power generator can produce under ideal conditions.

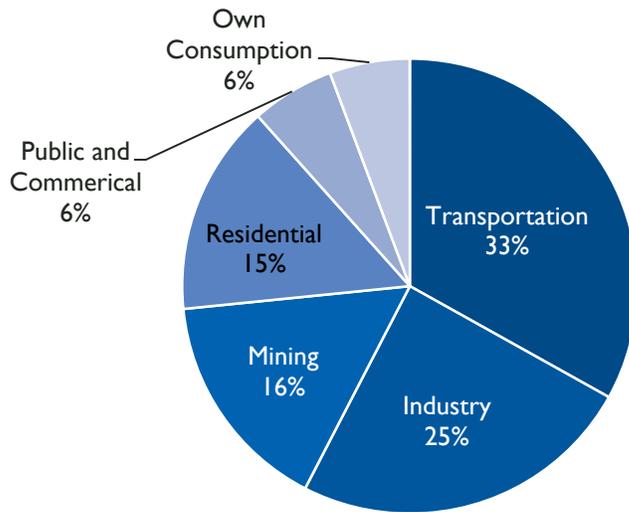
Source: OIG analysis of OPIC documents.

The Alto Maipo hydroelectric generation plant is considered a conventional source of energy in Chile.<sup>6</sup> AES Gener estimates that Alto Maipo will provide an additional 531 MW when completed. However, it is unclear when this conventional source will materialize because construction and environmental concerns have caused setbacks and delays. For example, one contractor suspended construction citing safety concerns, which prompted Alto Maipo to terminate the contract, citing the contractor’s failure to fulfill its contractual obligations.

The projects use different pricing structures for making a profit while connected to the national grid (see appendix B for more information on pricing structures). Overall, Chile’s energy consumers—which pull from the national grids that these projects transmit to—consist primarily of transportation, industry, and mining, totaling 74 percent as of 2014. Consumption by residents, public and commercial entities, and the energy sector’s own use make up the remaining amounts (see figure 4).

<sup>6</sup> The NCRE law excludes hydropower plants over 20 MW under its definition of nonconventional renewable energy.

**Figure 4. Chile Energy Consumption in 2014, by Sector**



Source: Chile's National Energy Commission, Energy Statistical Yearbook 2005-2015.

Historically, Chile has experienced high energy costs. In pursuing renewable energy goals, however, Chile has seen a decrease in these costs, and U.S. investments in solar energy have contributed to this. In addition, government officials, business representatives, and other stakeholders attributed U.S. business investments to contributing to growth in employment, local capacities, private market investment, and educational opportunities in renewable energy. Despite these major achievements, energy generation facilities across Chile, including those supported by OPIC, face financial challenges due to external factors. For example, the global drop in copper demand, a major Chilean export, contributed to decreased profitability of previously lucrative branches of the transmission grids. Because Chile's two major transmission grids have yet to be sufficiently expanded or linked, the increased energy supply cannot flow to other areas where there is a demand.

### **U.S. Companies Held Major Equity in OPIC's Chile Energy Portfolio, Meeting Participation Requirements**

OPIC's enabling statute requires the U.S. private sector to be involved when it provides financial services for a project.<sup>7</sup> To meet this U.S. participation requirement, OPIC policy states that a U.S. company must hold a minimum of 25 percent of equity, or the equivalent value, in a project.

Each of the six OPIC-backed energy projects in Chile met U.S. private sector requirements at the approval phase (see table 3). SunPower and First Solar were first-time customers of OPIC, whereas SunEdison and AES Corporation were reoccurring partners (see appendix D).

<sup>7</sup> The Foreign Assistance Act of 1961, Section 231, as amended, codified in Title 22 of the United States Code, Section 2191.

**Table 3. Percentage of U.S. Company Equity or Equivalent in OPIC-Backed Energy Projects at Approval Phase**

<b>Project</b>	<b>U.S. Company</b>	<b>Equity or Equivalent</b>
Alto Maipo	AES Corporation	60%
Amanecer	SunEdison	100%
San Andres	SunEdison	100%
Luz del Norte	First Solar	100%
Generación Solar	SunEdison	100%
PV Salvador	SunPower	100%

Note: SunEdison and First Solar also held the engineering, procurement, and construction and operations and maintenance contracts for their projects. AES holds the contract for operations and maintenance for Alto Maipo, but not the engineering, procurement, and construction contracts. PV Salvador met U.S. participation requirements through the equivalent value of its construction and operations and maintenance contracts held by SunPower, a U.S. company; cumulatively, these contracts are equivalent to over 100 percent of the project's equity.

Source: OIG analysis of OPIC project documents.

A couple years after OPIC approved the projects, the equity structures for several projects changed.<sup>8</sup> Most notably SunEdison's local subsidiary, whose U.S.-based parent company filed for bankruptcy in April 2016, sold its controlling ownership share in San Andres to a new sponsorship group and was also removed as its operations and maintenance contractor. Regarding Alto Maipo, Antofagasta, a Chilean mining company, transferred its 40 percent equity interest in the project to AES Gener—who held the other 60 percent—in 2016 citing concerns of “significant forecast construction cost overrun” and “interest to benefit from lower future sustainable energy costs for Los Pelambres [the copper mine, indirectly owned by Antofagasta, whose energy needs facilitated the energy agreement held with Alto Maipo (see appendix B)].”

OPIC's statute further emphasizes helping U.S. companies so that they can enter, grow, and compete in emerging markets. For example, SunEdison's Amanecer and San Andres solar power plants were the first projects the company introduced into Chile's energy market; SunEdison later increased its presence with Generación Solar and other non-OPIC-supported solar plants. In contrast, AES Gener, the local subsidiary of AES Corporation, has been present for several decades as one of Chile's largest generation companies and operates several large hydroelectric power plants throughout the country.

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<sup>8</sup> The scope of our audit did not cover the financial viability of the projects. For the full scope and methodology, see appendix A.

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## **CHILE PROJECTS DEMONSTRATED A LACK OF RIGOR IN OPIC'S PROCESSES FOR APPROVING PROJECTS, ASSESSING PROGRESS IN ACHIEVING ITS MISSION, AND REPORTING RESULTS**

When assessing projects for approval, OPIC's statute calls for considering the host country's per capita income and the viability of the local private credit market. However, weaknesses in OPIC's project approval process decrease its ability to uphold these criteria, capture sufficient data to measure projected and actual effects, and consider how its projects might align with U.S. foreign policy goals and pursue opportunities for collaboration. Moreover, OPIC's performance management framework is insufficient to assess progress toward advancing its mission.

### **Key Investment Practices Were Insufficient To Ensure Adherence to OPIC's Enabling Statute**

OPIC's enabling statute specifies that in approving investment guarantees, preferential consideration should be given to projects in less developed countries and activities in countries with a high per capita income should be restricted.<sup>9</sup> Though OPIC developed policies to allow investment in higher per capita income countries,<sup>10</sup> as of September 2016, high-income and middle-income countries made up 63 percent of OPIC's portfolio.<sup>11</sup> In 2014—around the time the Chile energy projects were approved—Chile's per capita income exceeded OPIC's restricted income value. According to OPIC, Chile was still open for investment because of OPIC's renewable energy sector priority, and local banks were unable or unwilling to finance the projects at commercially feasible terms.

OPIC's statute also requires that its financing complement, and not compete with, the private credit market in a given country. This requirement, known as “additionality,” involves determining whether or not OPIC's support of a transaction “adds value” because private financing was not viable due to country or other risk factors. Historically, OPIC assessed the additionality of potential projects; but in 2013, it revised its policy and now relies on applicants to determine that their involvement does not compete with the private market, using a simple yes-no questionnaire on whether private financing was viable or not (see table 4). However, OPIC's process does not require verification of applicants' additionality responses, which increases the risk of OPIC unknowingly providing financing to a project where private financing was available.

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<sup>9</sup> OPIC's statute defines less developed countries as those that “have per capita incomes of \$984 or less in 1986 United States dollars” and states that activities be restricted in countries that “have per capita incomes of \$4,269 or more in 1986 United States dollars.”

<sup>10</sup> According to its policy, investments in higher income countries are allowed without President and Chief Executive Officer approval up to, but not including, those classified as “very high income.” When countries cross to very high, the President and CEO would have to approve them for reasons of national interest or foreign policy.

<sup>11</sup> As of September 2016, Chile was OPIC's fourth largest country portfolio, totaling an estimated \$1.02 billion—6 percent of its total portfolio. High-income countries made up 24 percent of OPIC's total Maximum Contingent Liability exposure, middle-income countries made up 39 percent, and low-income countries made up 37 percent. See appendix D for explanation of Maximum Contingent Liability.

**Table 4. Chile Applicant Responses to Private Sector Sources of Financing Question<sup>a</sup>**

Question	Amanecer	Generación	San Andres	Luz del Norte	PV Salvador
Have you evaluated the possibility of obtaining financing for the Project from private sector sources?	Yes	Yes	Yes	Yes	Yes
Have you determined that private sector financing is not a viable option for the Project?	No	No	No	Yes	Yes
If yes, please list the reasons why private sector financing is not a viable option for the Project (check all that apply).					
Private Sector financing is not available at all in the Project Country				No	No
Private Sector financing is available, but not on terms (tenor, pricing) that would be viable for the Project				No	Yes
Other				Yes <sup>b</sup>	No

<sup>a</sup> Alto Maipo fell under older guidance.

<sup>b</sup> Applicant stated: “Private sector financing is not available for Merchant projects [those without energy contracts].”

Source: OIG analysis of OPIC project documentation.

Furthermore, without a more rigorous process, OPIC risks violating additionality requirements on future projects. While our analysis indicates that OPIC projects did not compete with the private market in Chile, OPIC was unable to demonstrate that it adequately assessed additionality when reviewing Chile projects for approval.<sup>12</sup> Notably, Chile project files did not include written representation documents from applicants—required by OPIC’s process—and key documents used for management decisions did not include OPIC’s required additionality information. For example, formal project overview documents used in initial committee meetings for reviewing and approving Chile projects did not include information on additionality, and documents provided for the final project approval meeting contained only brief and generic information on additionality. In addition, when processing its Chile projects, OPIC used some outdated additionality criteria rather than using its updated guidance.

### **Data Captured in OPIC’s Development Impact Profiles Are Insufficient To Measure Project Effects**

Federal law requires OPIC to prepare and maintain for each project a development impact profile that consists of “data appropriate to measure the projected and actual effects of such project on development,” in order to guide its decision to provide financial services and report to Congress on the impacts and benefits.<sup>13</sup> However, weaknesses in OPIC’s approach for capturing projected and actual effects call into question the profile’s accuracy, usefulness in assessing effects, and value to Congress.

To measure projected effects, OPIC assesses applicant information against 12 criteria across

<sup>12</sup> The U.S. Government Accountability Office’s (GAO) “Standards for Internal Control in the Federal Government” states that management is to use quality information—appropriate, current, complete, accurate, accessible, and timely—to make informed decisions.

<sup>13</sup> 22 U.S.C. 2199.

five categories, and applies a numerical score to each (see table 5).

**Table 5. Areas Assessed Through OPIC’s Project Development Impact Profile**

Category	Criteria
<b>Job and employee capacity building</b>	1. Job creation 2. Training 3. Employee benefits
<b>Demonstration effects</b>	4. New product, technique, operational technology, or management practice 5. Sector impact 6. Local ownership stake
<b>Host country impact</b>	7. Local procurement 8. Fiscal impacts 9. Foreign exchange impact
<b>Environment and community benefits</b>	10. Community benefits 11. Environmental benefits
<b>Development reach</b>	12. Development that reaches poor, underdeveloped, or rural areas, or targets underserved segments of the population, such as women

Source: OIG analysis of OPIC documentation.

A total score of 25 to 59 is considered developmental, and 60 to 100 is considered highly developmental. To achieve its strategic objective—aim for high development impact—OPIC targets a total average rating of 50 or above for all of its prospective projects.<sup>14</sup> Based on its analyses, all of OPIC’s Chile projects scored over 50 (see table 6).

**Table 6. Projected Impact Score Totals for Chile Energy Sector Projects**

Project	Rating
Alto Maipo	72.5
San Andres	62.5
Amanecer	62.5
Generación Solar	60.0
Luz del Norte	60.0
PV Salvador	57.5

Source: OIG analysis of OPIC documentation.

However, major design weaknesses in OPIC’s process for measuring projected effects—including lack of documentation, weighting, and overall lack of rigor—make ratings unreliable and at risk for inflation. For example, OPIC concluded that all six Chile energy project companies will provide employee benefits beyond what is required by local law, and therefore applied the maximum score for this criterion. However, OPIC does not require applicants to provide supporting documentation, and, when we asked the companies to verify this information, only one company stated that it provided benefits beyond what was required by law. In several instances, OPIC made changes in prospective borrowers’ applications but did not provide support for why it made these changes. (For more examples of design weaknesses we

<sup>14</sup> Though 60 and above is considered “highly developmental,” OPIC set its strategic objective target at 50 which is considered “developmental” internally.

identified in OPIC’s projected impact assessment, see appendix E.) Moreover, OPIC was unable to demonstrate if and how it consulted with USAID in creating the criteria for its development impact profile, as required under Section 239(h) of the Foreign Assistance Act. We also found that OPIC has no established process to facilitate a structured and documented consultation with USAID.

OPIC also lacks adequate procedures for measuring actual effects of projects. According to OPIC, it collects and reports on the actual effects of eligible projects via site visits, using the data collected to rescore projects’ initial profile ratings.<sup>15</sup> While OPIC’s 2009 “Monitoring Handbook” contains some guidelines for selecting site visits, the handbook is outdated and does not include procedures on when and how to evaluate a project’s actual effects. Further, the actual effects data OPIC reports to Congress on its projects worldwide are limited; actual effects are reported out every 3 years and with minimal information. For fiscal years 2013 through 2015, OPIC’s report was a one-page summary of projected and actual effects for just 2 of the 12 development criteria—job creation (host country employment) and fiscal impact (taxes paid to host country)—and covering a total of 62 projects, or 21 projects per year, which is a small portion of OPIC’s portfolio.<sup>16</sup>

## **OPIC Does Not Systematically Consider How Its Projects Align With U.S. Foreign Policy Goals or Other Government and Donor Programs**

In supporting investments overseas, OPIC looks to “advance U.S. foreign policy and national security priorities.” The U.S. Government has many broad foreign policy goals as well as specific country-related goals. Notably, the Department of State, the lead agency in U.S. foreign policy, articulates U.S. priorities and objectives for a given country via an Integrated Country Strategy (ICS).<sup>17</sup> Through ICS, U.S. agencies coordinate activities and identify actions to address challenges and opportunities in a country.

Though our analysis indicated that OPIC’s Chile energy portfolio aligned with the ICS for Chile, OPIC does not have a process to systematically consider if and how prospective projects align with U.S. priorities in a given country via ICS—unlike other U.S. agencies that participate in the ICS process.

Similarly, OPIC does not have a process to consider how a project complements, or is compatible with, other development assistance programs or projects of the United States or other donors when determining whether to finance a project, as statutorily required. This type of interagency interaction or collaboration is intended to produce more public value than could be produced when agencies act alone. In general, OPIC does not proactively seek project collaboration opportunities with other U.S. agencies or donors, nor does it have clear guidelines for doing so. While OPIC’s overseas personnel may find opportunities where OPIC-supported projects can work with other U.S. Government or external programs, these

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<sup>15</sup> According to OPIC, a project does not become eligible for a site visit by its OIP Economic group until after its fifth year in operation; none of the Chile projects had met this requirement during audit fieldwork.

<sup>16</sup> OPIC’s annual self-monitoring questionnaires—submitted to and completed by borrowers—also collect data to “assess the impact on host country economic development.” Despite this stated purpose, the data are not used in evaluating or rescoring projects, only in providing occasional highlights in OPIC’s annual reports.

<sup>17</sup> OPIC falls under the policy guidance of the Secretary of State.

personnel are not an institutional part of OPIC's operations and are typically present for a particular priority or initiative.

According to OPIC, interagency collaboration discussions take place during its due diligence interactions with the U.S. Embassy and at board of director approval meetings.<sup>18</sup> While OPIC's due diligence process is intended to "uncover derogatory information" about potential projects and related parties, it does not specifically call for inquiring about possible project compatibility or collaboration opportunities. Similarly, board of director bylaws do not cover these types of discussions, and the board only looks at projects over \$50 million, so any project under this amount would not be discussed at board meetings. Despite these potential gaps, it is assumed that the board will assist in fulfilling this statutory requirement.

Without improved processes, OPIC may miss opportunities to integrate into the U.S. foreign assistance framework and work with other donors to meet common development goals to ultimately advance U.S. foreign policies.

## **OPIC's Performance Management Framework Lacks the Rigor Needed To Assess Progress in Advancing Its Mission**

The Government Performance and Results Modernization Act of 2010 (GPRAMA) requires Federal agencies to show mission achievement and create a culture where data and empirical evidence play a greater role in policy, budget, and management decisions. Specifically, GPRAMA requires agencies to develop a performance management framework that includes strategic plans, performance plans, and performance reports (see appendix F for definitions).

For OPIC, this means articulating how it will carry out its mission to mobilize U.S. private capital to help solve critical development challenges and advance U.S. foreign policy through the projects it supports in countries such as Chile. However, OPIC's performance management framework lacked the rigor needed to assess progress in advancing its mission. Specifically, the framework lacked processes for assessing and aligning prospective projects with its strategic goals and did not articulate how it defines or captures (1) efforts to mobilize U.S. private capital, (2) critical development challenges, or (3) advancements in U.S. foreign policy. Based on our interviews with staff, tracking the progress of strategic goals was ad hoc at best. Some interviewees said goals were not tracked at all.

Discrepancies among OPIC's stated mission, strategic plan, performance plan, and report further limit OPIC's ability to illustrate progress. For example, for its fiscal year 2015 performance plan and report, OPIC only captured a few of its strategic goals with performance indicators, which are used in measuring and assessing agency progress each fiscal year (see table 7). Many other elements that Federal agencies are required to include in their performance management framework were absent from OPIC's documents (see appendix F for details).

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<sup>18</sup> OPIC is overseen by a Board of Directors consisting of fifteen members from the private sector and the federal government, including the Administrator of the U.S. Agency for International Development.

**Table 7. OPIC’s Strategic Goals, Performance Plan Indicators, and Fiscal Year 2015 Targets**

<b>Strategic Goal and Sub-Goal</b>	<b>Performance Plan Indicator</b>	<b>FY 2015 Target</b>
<b>Goal 1: Grow Portfolio and Impact</b>		
Aim for high development impact	Projects with development scores evidencing <sup>a</sup>	50
Keep returning money to Treasury	None	
Diversify portfolio and increase commitments, closing disbursements, focusing on narrowing the gap between commitments and disbursements	Millions of dollars in finance and insurance project commitments	\$4,200
Growth in number of low-income countries and foreign policy priorities	None	
Develop new financial products and refine existing ones	None	
<b>Goal 2: Increase Environmental Benefit</b>		
Maintain focus on renewable resources and energy efficiency	Millions of dollars in finance and insurance commitments in projects dedicated to renewable resources and energy efficiency	\$1,000
Minimize greenhouse gas emissions across portfolio	Millions of tons of carbon dioxide emitted by portfolio projects	36
<b>Goal 3: Foster Productivity and Efficiency</b>		
Develop new partnerships to increase impact and efficiency	None	
Improve data management and analysis to streamline reporting and strengthen corporate decision making	None	
Leverage emerging mobility technology to consistently and effectively provide access to OPIC data anywhere/anytime	None	
Transform, empower and engage the OPIC workforce by investing in employee development activities	None	
Improve the OPIC customer experience and reduce process time	None	
<b>Goal 4: Build Long-Term Support for OPIC</b>		
Enhance dialogue with internationally focused think tanks, trade associations and other influencers	None	
Support OPIC clients, effectively communicating stories, accomplishments and impact	None	
Engage potential new OPIC clients and partners through business development outreach activities	None	
Continue to engage Congress and other U.S. Government agencies about OPIC	None	

<sup>a</sup> This indicator is the total average of the projected development impact score given to each of its prospective projects.

Source: OIG analysis of OPIC’s Congressional Budget Justification for fiscal year 2015.

## CHILE PROJECTS REVEALED BROADER WEAKNESSES IN OPIC’S INTERNAL CONTROL SYSTEM

To fulfill their agency’s mission, OPIC leadership and managers are responsible for an effective internal control system, which is defined in GAO’s “Standards for Internal Control in the Federal Government.”<sup>19</sup> Specifically, these standards call for establishing plans, methods, policies, and procedures for effective oversight—including those for carrying out robust monitoring, maintaining comprehensive and accurate data, and conducting thorough evaluations—that Federal agencies are expected to use to safeguard assets and achieve desired results.

Weak controls related to mitigating environmental risks, protecting human and labor rights, and implementing sound business practices limit OPIC’s ability to meet these internal control standards. However, according to OPIC management, its priority is on increasing commitments, with less focus given to nonfinancial-related internal controls. When many of the project applications in its Chile energy portfolio were being submitted and assessed, OPIC’s worldwide portfolio was already expanding greatly. OPIC reported in its 2016 annual report that it nearly doubled its portfolio between 2008 and 2016 to \$21.5 billion. OPIC stated that it is driven by the need to address a wide range of stakeholder priorities, the management of its limited resources, and the fulfillment of its requirement to be self-sustaining.

### OPIC’s Ability To Mitigate Environmental Risks and Protect Human and Labor Rights Is Limited by Weak Controls

Federal law requires OPIC to take steps to mitigate environmental risks and protect human and labor rights when financing a project. During project approval, OIP categorizes the environmental, labor rights, and human rights risks of prospective projects. Environmental risks are categorized as high, medium, or low; labor rights risks are categorized as special consideration or not; and human rights risks are typically categorized as cleared or not cleared in consultation with the Department of State. For its Chile projects, OPIC determined that there were no significant risks to labor and human rights, but that the environmental risks were high for Alto Maipo and medium for the solar projects (see table 8).

**Table 8. Risks, by OPIC’s Chile Project Type**

Environmental Risk	Labor Rights Risk	Human Rights Risk
<i>Large Hydro Power Plant (Alto Maipo)</i>		
<b>HIGH</b> Project is likely to have significant adverse environmental effects that are irreversible, sensitive, diverse, or unprecedented.	<b>NOT SPECIAL CONSIDERATION</b> (1) Construction contractors are globally recognized and have experience, (2) Chilean labor laws are strong, (3) a third party will monitor, and (4) during operation there will be a small number of staff.	<b>CLEARED</b> Cleared by the U.S. State Department.

<sup>19</sup> Within OPIC, a board of directors is responsible for providing “policy direction and general oversight as to the manner in which the business of the Corporation may be conducted.”

Environmental Risk	Labor Rights Risk	Human Rights Risk
<b>Solar Power Plants</b>		
<p><b>MEDIUM</b> Project is likely to have limited adverse environmental effects that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.</p>	<p><b>NOT SPECIAL CONSIDERATION</b> Factors include: (1) Project’s labor management system reduces risk, (2) Chilean labor laws are strong, or (3) a third party will monitor.</p>	<p><b>CLEARED</b> Cleared by the U.S. State Department.</p>

Source: OIG analysis of OPIC documentation.

Based on its risk categorizations, OPIC used a variety of methods to monitor and mitigate identified environmental and social risks, such as third-party monitoring and self-monitoring questionnaires.<sup>20</sup> However, the following gaps in its approach limited the ability of these measures to mitigate risk.

**Third-Party Monitoring.** Third-party monitors have been key in notifying OPIC of violations. For example, third-party monitors alerted OPIC of labor issues and subsequent lawsuits at the project company for Generación Solar—violations that the company did not report to OPIC.

This monitoring tool is typically included in the independent engineers’ scope of work.<sup>21</sup> Under its Chile energy sector portfolio, each independent engineer’s work included monitoring environmental and social aspects of the projects.

However, weaknesses in OPIC’s processes regarding third-party monitors can decrease the efficiency and effectiveness of this risk-mitigation control. For example:

- OPIC’s guidance does not stipulate a requirement for its environmental and social experts to be involved in the process for determining which projects need an environmental and social component in the independent engineer’s scope.
- OPIC has no process for ensuring that all relevant parties receive the third-party monitoring reports. According to interviewees, OIP relies on other OPIC offices that receive the reports to forward them on to OIP. This limits OIP’s ability to readily access and review these reports.

**Self-Monitoring Questionnaires (SMQs).** OPIC relies on borrowers to promptly self-report any environmental or social concerns or violations, as well as acknowledge such instances in their annual SMQs.<sup>22</sup> For fiscal year 2015, OPIC reported that across all of its borrowers, 98 percent (all but four) of SMQ respondents stated compliance with OPIC conditions related to the environment, health, and workers’ safety. However, within the Chile energy portfolio,

<sup>20</sup> Some of the methods were required by other lenders involved in the deals.

<sup>21</sup> Independent engineers provide technical due diligence for a project, which includes assisting lenders in understanding the technical aspects of a project and identifying potential issues and concerns. They may also provide technical oversight support to lenders during the construction and operational phases of a project.

<sup>22</sup> According to the SMQ form, the information provided by OPIC clients in this questionnaire allows OPIC “to better assess the impact of OPIC-assisted projects on the U.S. economy and employment, as well as the impact on host country economic development and the effects on the environment and workers’ rights abroad.”

third-party monitors identified violations that were not promptly reported to OPIC or acknowledged in SMQs. While these violations were caught, third-party monitors are not used for all OPIC projects, and OPIC does not conduct regular reliability assessments of SMQ data; rather, assessments are limited to reviews of outlier information by the SMQ officer. These reviews are further limited to the number of SMQs that are actually returned. The five Chile projects that were required to provide an SMQ for fiscal year 2015 did not, while the one project that was not required to provide one did. These issues raise questions about the effectiveness of SMQ reporting.

**OIP Site Visits.** At the time of our audit, OIP had a total of 11 employees—2 managers and 9 staff—responsible for clearing prospective projects and monitoring environmental and social risks for all OPIC projects worldwide. OIP staff ranks sensitivity of environmental impact and worker rights provisions as a factor in determining which projects they plan to conduct site visits for. However, OPIC could not provide an accurate list of projects eligible for its monitoring selection. Further, OPIC acknowledged that its list of projects visited may not be accurate. For example, according to an OPIC manager, staff may mark projects that are scheduled for monitoring as visited but not correct the entry if the site visit is cancelled. OIP’s project monitoring handbook acknowledges that the process for tracking site visits is cumbersome and error-prone. The handbook states: “this is a manual entry field, which in many cases has forgotten to be checked.”

Because OPIC could not provide an accurate list of projects eligible for monitoring and oversight, we used publically available information and OPIC documents to compile summary data. These available data indicate that between 2012 and 2016, OIP conducted site visits for an average of 5 percent of active OPIC projects worldwide (see table 9).<sup>23</sup>

**Table 9. Percentage of Projects OPIC Staff Monitored by Risk Area**

	2012	2013	2014	2015	2016	Average
Human and labor rights	3%	5%	7%	4%	6%	5%
Environment	4%	4%	7%	4%	7%	5.2%

Note: Because OPIC’s active projects list could not be verified, we used alternative sources to calculate percentages.

Source: OIG analysis of GAO and OPIC data.

**External Monitoring Contract.** OPIC holds a standing contract with outside firms that provide monitoring services as needed.<sup>24</sup> According to OPIC staff, this contract is rarely used and in 2014 and 2015, a total of five projects from OPIC’s entire portfolio were monitored using this agreement.<sup>25</sup>

<sup>23</sup> OPIC estimates it conducted site visits for approximately 15 percent of its projects because it only considers projects that have been in operation for 5 years.

<sup>24</sup> According to OPIC, from 2009 to 2016, OIP had a Basic Ordering Agreement in place with six firms. OIP now has new contracts in place.

<sup>25</sup> Between 2014 and 2015, data showed that OPIC had an average of 410 active projects; we were unable to verify the accuracy of this data.

**Concerns From the Public.** OPIC can also obtain valuable information regarding its projects through stakeholders in affected communities. However, OPIC does not have clearly defined processes and roles for handling concerns that citizens and other outside groups bring to its attention. During the course of our audit, stakeholders alerted us to environmental concerns because they did not know who these concerns needed to go to; we forwarded these concerns to OPIC. According to OPIC, it reviews and responds to all incoming concerns informally.

## **OPIC Did Not Follow Sound Business Practices for Updating Policies and Procedures, Managing Records, and Evaluating Results**

In auditing OPIC's risk mitigation processes for the Chile projects, we identified broader issues throughout its agencywide internal control system. Poor internal controls made it difficult to determine current policy, guidance, and procedures for staff to follow. It also resulted in inefficient or ad hoc processes for capturing and applying lessons learned to make process and policy improvements. (See appendix G for a sample of our testing results for OPIC's risk mitigation processes.)

**Policies and Procedures.** OPIC did not continually update its policies and procedures to ensure they are comprehensive and consistent. For example:

- OPIC's policy directives—which set permanent policies and procedures that govern OPIC—were outdated and did not fully reflect its current internal guidance. For example, one directive stated that OPIC's 2004 Environmental Handbook “shall be the source of guidance in implementing environmental policy requirements.” Although guidance developed in 2010 replaced the handbook, the directive—last updated in 2008—did not reflect this change.
- OPIC's Project Monitoring Handbook and website had conflicting information with regard to expired forms, the definition of an active project, and when a project is required to have an SMQ.
- OIP's guidance for identifying and mitigating environmental risks and protecting human and labor rights was spread across multiple documents, which had inconsistencies and lacked clarity on how OIP analysts can ensure applicant accountability. Other offices' guidance on roles and responsibilities related to OIP's work was also absent. For example, the legal group did not have a policies and procedures manual, and responsibilities for the Legal Affairs Department were outlined in the OIP and Finance manuals.

**Records Management and Information Access.** All OPIC employees—per the agency's policies—are responsible for filing records they create pertaining to OPIC's business, activities, and other aspects of their work into Hewlett-Packard Records Manager (HPRM), the agency's official records management system. However, HPRM did not include all official records for Chile projects—raising questions about whether records for other projects are consistently uploaded in the system. For example:

- Documentation on the origin of Chile project deals could not be provided. According to two OPIC officials, all six companies approached OPIC. However, AES officials said OPIC approached AES, which was developing two power projects (a coal power plant and the

Alto Maipo hydroelectric plant) at the time. SunEdison officials similarly stated that SunEdison’s Chile projects with OPIC were based on the company’s previous relationship with OPIC on other projects.<sup>26</sup>

- Half of the Chile projects’ transfer procedure checklists—which confirm that all records are properly filed in HPRM and handed over to the relevant offices—were not filed in HPRM. Further, many origination folders remained empty and did not include the information used in assessing and approving these projects.
- HPRM did not include any email correspondences for Alto Maipo and PV Salvador. In contrast, emails for other Chile projects that were included in HPRM were not labeled.

In general, each office maintains applicant and other third-party documents outside of HPRM—mainly via separate shared computer drives—making it difficult for other offices to readily access this information. OPIC staff told us that they did not use HPRM as a source to obtain relevant documents to perform their work. In addition, OPIC does not require documentation of OIP reviews of materials relevant to monitoring—such as project deliverables and third-party monitoring reports.<sup>27</sup> Moreover, OPIC does not have a system in place to capture receipt of project deliverables, which are pivotal for monitoring. Some deliverables for the Chile projects were received past the deadlines, while others were either never received or could not be located. According to OPIC staff, the agency is working to roll out an external platform to allow borrowers to upload documents directly to a portal rather than submit via email. However, without a comprehensive records management system, OPIC depends on ad hoc communication and coordination among its offices to share records. This informal handling of information limits access to documents OPIC staff need to assess and manage risks and monitor applicant compliance, as well as diminishes transparency into OPIC’s oversight.

OPIC’s policy directives outline the responsibilities of the various offices and managers—including departmental vice presidents and directors—to oversee the implementation of OPIC’s records management. However, according to various managers, records management is the responsibility of the Records Management Office. Furthermore, OPIC has not developed guidance to define which documents its offices produce or maintain are considered an official record.<sup>28</sup>

Many of these breakdowns were identified by the National Archives and Records Administration (NARA)—the Federal agency responsible for the management of U.S. Government records—in 2016.<sup>29</sup> NARA noted that OPIC’s organizational awareness of records management policies, procedures, and regulations was limited, and pointed out

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<sup>26</sup> The other two U.S. companies associated with OPIC’s Chile energy portfolio—First Solar and SunPower—were first-time beneficiaries of OPIC support. These companies (or their affiliated entities) contacted OPIC for financial services. First Solar stated it had a relationship with OPIC in the United States and that the company approached OPIC because private financing was not initially available for its Chile project, Luz del Norte. According to representatives familiar with the origination of PV Salvador, the representatives for SunPower’s largest shareholder, Total, were the first to reach out to OPIC to obtain financing for the project.

<sup>27</sup> Project deliverables can be plans or documents that show that the borrower has satisfactorily met and addressed any shortfalls, such as in meeting environmental and social requirements.

<sup>28</sup> During the course of the audit, OIP employed a program support specialist whose duties included handling the department’s records management.

<sup>29</sup> NARA, “Records Management Program Review Report,” April 5, 2016.

weaknesses such as Federal records and non-record material potentially residing unmanaged on OPIC shared drives; no standardized naming convention for documents stored on shared drives, inhibiting intellectual control of records; and no email management. NARA made nine recommendations to remedy identified records management weaknesses. According to OPIC, it continues to work to close the recommendations and notes that the implementation of its new Insight system—which can automate document uploads into HPRM—will address many of these concerns.<sup>30</sup>

**Evaluation.** Federal internal control standards require management to establish activities to monitor and evaluate results, and address any identified issues in a timely manner. Yet OPIC lacks a repository for collecting and evaluating historical information on its borrowers, including development impact, repayment history, and violations or noncompliance. Without this information, OPIC may not have a complete picture of applicants who are reoccurring borrowers during the prescreening and approval process. For example, previous labor rights violations were identified in conjunction with OPIC-supported projects sponsored by SunEdison in India, but this information was not considered by OPIC in subsequent labor rights clearances of SunEdison’s Chile projects. Staff turnover increases the risk that critical information will not be shared or will be lost forever.

Finally, OPIC does not have a formal structure to capture lessons learned and make process and policy improvements. OPIC cited several examples of how it is working to increase knowledge sharing:

- **OIP Trip Readouts.** To share information on its site visits to monitor active projects’ compliance with environmental, social, and U.S. economic impact requirements, OIP offers organization-wide presentations on the outcomes of the visits and relays lessons learned for future projects.
- **Sector Deep Dives.** OPIC periodically conducts interdepartmental deep dives into specific sectors that comprise OPIC’s portfolio to identify agencywide lessons learned. The deep dives are presented to all staff and encompass lessons derived from OPIC’s project origination, credit, and policy teams. Past deep dives included OPIC’s education, health, power, agriculture, and housing portfolios.
- **Country Deep Dives.** OPIC has also instituted periodic country deep dives at quarterly Portfolio Concentration Meetings, at which risks in nations where OPIC has substantial current or prospective portfolio exposure are analyzed. OPIC conducts these analyses on two to four countries a year. A crucial component of this process involves discussions with OPIC teams having recent experience on deals in the targeted countries.

However, these activities are generally ad hoc and limited due to the siloing of information and a lack of a formal process to modify future projects. As a result, the burden falls on OPIC employees to find and apply these lessons when conducting their work.

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<sup>30</sup> Insight is an information management system developed by OPIC for its non-accounting processes. OPIC has licenses to the platform, which is provided by an external service provider, Salesforce.

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## CONCLUSION

OPIC's major investment in U.S. companies has helped Chile further the renewable energy goals set forth in its 2008 NCRE law. However, management gaps identified in the Chile energy portfolio revealed that OPIC lacks the business practices necessary to ensure it upholds its statutory requirements and captures sufficient data to track progress in carrying out its mission, advancing U.S. foreign policy, and capturing the development impact of its projects. In addition, weak processes and internal controls—including unverified borrower self-assessments, outdated policies and procedures, and poor records management—hindered the ability of OPIC staff to ensure its projects comply with environmental and social laws, adequately manage and monitor OPIC-backed projects, and identify risky clients. As OPIC continues to aim to expand its portfolio worldwide, sound internal controls and business practices are critical to its success. Until OPIC—in conjunction with its board of directors—improves its processes for assessing projects, establishes a rigorous performance management framework, and strengthens oversight mechanisms, it will lack reasonable assurance that its actions prioritize achieving results in the economic and social development of countries and advancing U.S. foreign policy over expanding its portfolio worldwide. By placing emphasis on strengthening internal controls, OPIC can grow responsibly with the necessary resources devoted to achieving all aspects of its mission.

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## RECOMMENDATIONS

To better ensure compliance with its statute, we recommend that OPIC:

1. Implement a process and related guidance for verifying and documenting that OPIC is not competing with the private market in a given country.
2. Revamp the development impact profile process to sufficiently capture and assess projects' projected and actual effects, and report reliable data to Congress. This should include establishing clear criteria, requiring evidence, aligning application questions to obtain data needed, and documenting the process for determining actual effects.
3. Implement a formal process for consulting with USAID on its development impact profile criteria that includes the documentation of the consultations.
4. Implement a process and related guidance to verify and document how projects seeking approval complement U.S. development assistance objectives. It should include considerations for connecting to the Department of State's integrated country strategies and for complementing the work of other U.S. Government agencies and other donors.

To better ensure compliance with the Government Performance and Results Modernization Act of 2010, we recommend that OPIC:

5. Implement a performance management framework that is in compliance with the Government Performance and Results Modernization Act of 2010 and enables OPIC to fully capture its goals and report on progress in achieving its mission.

To establish an internal control system as called for in Federal standards, we recommend that OPIC:

6. Implement a process with a sound methodology for validating data provided by borrowers in the self-monitoring questionnaire, and strengthen procedures for timely submissions.
7. Update the Office of Investment Policy's process for identifying and selecting projects for site visits, and for tracking and documenting planned and actual visits, so that it is streamlined and based on reliable data.
8. Modify the Office of Investment Policy's guidance to include relevant staff members' roles and responsibilities for providing input into independent engineers' scopes of work and documenting reviews of materials related to environmental and social protection.
9. Implement a formal process with defined roles for handling environmental and social concerns that various stakeholders refer to OPIC.
10. Conduct and document a baseline assessment of all policies and procedures to identify and update outdated material, and implement controls to ensure periodic reviews and updates.
11. Conduct and document a review of the Office of Investment Policy's guidance to identify any gaps and check for consistency among other offices' related guidance, and update as necessary.

12. Consistent with addressing the National Archives and Records Administration's recommendations, develop policies and corresponding training for complying with Federal Government records management requirements that define roles and responsibilities and require supervisory compliance reviews, periodic testing of the official records management system, and documentation of these review and testing results.
13. Conduct a baseline assessment to determine the information access needs of each office to accomplish their respective work, and develop protocols to ensure each office has access to needed information.
14. Implement a system to track the receipt, review, and certification of all project deliverables, including third-party reports.
15. Develop and implement a borrower evaluation system that contains information on performance, including violations, repayment history, compliance, and development impact. Develop a policy requiring this information to be used in the review process for future deals with reoccurring borrowers.
16. Formalize a process for capturing and disseminating lessons learned agencywide that acknowledges strengths and weaknesses associated with business practices, and modify relevant policies and procedures accordingly.

## OIG RESPONSE TO AGENCY COMMENTS

We provided a draft of our report to OPIC on September 25, 2018, and received its response on October 25, 2018, which is included in appendix H. OPIC also provided technical comments, which we incorporated where appropriate. After reviewing its response, we consider two recommendations resolved but open pending completion of planned activities (recommendations 12 and 13); we consider the remaining recommendations unresolved for the reasons below.

In its response, OPIC references the new Better Utilization of Investments Leading to Development (BUILD) Act of 2018 (Public Law No. 115-254)—which was enacted in October 2018 after audit work concluded and establishes the U.S. International Development Finance Corporation (DFC) to replace OPIC.<sup>31</sup> OPIC stated that because its functions will be transferred to DFC, it will delay consideration of our recommendations until it engages in the process of creating policies and procedures for DFC.<sup>32</sup>

OPIC noted where our recommendations are similar to mandatory provisions in the BUILD Act (see table 10).

**Table 10. OIG Recommendations That OPIC Linked to BUILD Act Provisions**

OIG Recommendation		Summary of the Law Cited by OPIC
1 Implement a process and related guidance for verifying and documenting that OPIC is not competing with the private market in a given country.	1452	Develop appropriate safeguards, policies, and guidelines to ensure that DFC support supplements and encourages, but does not compete with, private sector support.
2 Revamp the development impact profile process to sufficiently capture and assess projects' projected and actual effects, and report reliable data to Congress.	1442	Develop a successor to OPIC's development impact measurement system.
	1444	Maintain a publicly accessible database with detailed project-level information and performance metrics.
3 Implement a formal process for consulting with USAID on its development impact profile criteria that includes the documentation of the consultations.	1413	The USAID Administrator or his designee shall serve as vice chairperson of DFC's board of directors; 1413(f) creates a Chief Development Officer whose duties include coordination of DFC's development policies with USAID.
4 Implement a process and related guidance to verify and document how projects seeking approval complement U.S. development assistance objectives.	1443 (a)(2)	Include in its annual report to Congress a section on how the Corporation complements or is compatible with the development assistance programs of the United States.
5 Implement a performance management framework that complies with the Government Performance and Results Modernization Act of 2010 and enables OPIC to fully capture its goals and report on progress in achieving its mission.	1442	Develop a performance measurement system to evaluate and monitor projects and guide future projects

<sup>31</sup> The BUILD Act also wraps USAID's Development Credit Authority into the DFC.

<sup>32</sup> The BUILD Act requires the President to submit a reorganization plan to Congress within 120 days of enactment—including how the transfer of agencies, personnel, assets, and obligations to the DFC will occur.

OIG Recommendation	Summary of the Law Cited by OPIC
6 Implement a process with a sound methodology for validating data provided by borrowers in the self-monitoring questionnaire, and strengthen procedures for timely submissions.	1442 See table note
	1443 See table note
9 Implement a formal process with defined roles for handling environmental and social concerns that various stakeholders refer to OPIC.	1415 Establish an independent accountability mechanism to annually evaluate compliance with environmental, social, labor, human rights, and transparency standards. Provide a forum for resolving impact concerns of specific projects with respect to such standards.
16 Formalize a process for capturing and disseminating lessons learned agencywide that acknowledges strengths and weaknesses associated with business practices, and modify relevant policies and procedures accordingly.	1441 Establish a Risk Committee of the board with oversight responsibility of developing policies for enterprise risk management, monitoring, and management of strategic, reputational, regulatory, operational, developmental, environmental, social, and financial risks.

Note: OPIC cited this section of the BUILD Act but did not provide a summary to explain how it aligned with our recommendation.

We agree that certain sections of the BUILD Act align with many of our recommendations. However, this alignment underscores the need for OPIC to consider our recommendations as it transitions to DFC—not delay consideration until the transition is well under way or completed. Moreover, some of the sections of the law that OPIC calls out demonstrate that it does not fully understand the intent of our recommendations. For example:

- For recommendation 2, revamping the development impact profile process calls for more than developing a successor to OPIC’s development impact measurement system and maintaining a publicly accessible database on project information and performance.
- For recommendation 5, implementing a performance management framework that complies with GPRAMA encompasses more than a performance measurement system.
- For recommendation 6, OPIC did not provide a summary of the sections of the law it cited. However, our review of these sections—1442 and 1443—did not identify any language that would address the need to improve the quality of information provided by borrowers and review of such information by OPIC staff associated with the self-monitoring questionnaire process. As we point out in our report, the quality of the information gathered through this process and OPIC’s capacity to review and follow up with project partners on specific questionnaire responses diminishes the effectiveness of this oversight tool.

For recommendations 7, 8, 10, and 15, OPIC stated it will evaluate processes, guidance, and policies as it transitions into the new corporation. Similarly for recommendations 11 and 14, OPIC said it will assist in developing appropriate systems for the needs of DFC and that it has begun piloting a system to track the receipt, review, and certification of project deliverables; however, it did not provide documentation or a target implementation date, and said resources would be considered when establishing the new corporation.

For recommendation 12, OPIC said it has taken steps to address our concerns through policies that call for actions such as delineating agency roles and responsibilities for managing records and providing formal staff training. OPIC also stated it tested controls related to records

management in fiscal year 2017. Similarly, for recommendation 13, OPIC said it completed an assessment in fiscal year 2017 to determine information access needs. We consider these two recommendations resolved but open until OPIC provides us sufficient documentation to verify these actions have been taken.

While we recognize OPIC is working to develop policies and procedures consistent with the BUILD Act, our recommendations should inform these deliberations as OPIC transitions into DFC—especially in light of the expanded authorities and portfolio ceiling the new corporation will have. In their call for a premier development finance institution, Congress and stakeholders expect an effective, accountable, and transparent corporation. These tenets are at the crux of our findings and recommendations for improving OPIC’s oversight of its \$21.5 billion portfolio of projects worldwide as it transitions into DFC and comes under the purview of a new Inspector General, which will be appointed by the corporation’s Board of Directors.<sup>33</sup>

Therefore, we consider our recommendations open—and many unresolved—until OPIC fully addresses them. OPIC should consider these recommendations without delay as it transitions into DFC. Our work will also help inform the Board of Directors’ oversight of the transition process. We will transfer all open recommendations to the new Inspector General when DFC’s Board of Directors appoints one.

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<sup>33</sup> DFC will be overseen by a Board of Directors that will include the Chief Executive Officer of the Corporation, the Secretary of State, the Administrator of the United States Agency for International Development, the Secretary of the Treasury, the Secretary of Commerce, and four individuals appointed by the President, by and with the advice and consent of the Senate.

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## APPENDIX A. SCOPE AND METHODOLOGY

We conducted our work from April 2016 through September 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit objectives were to review OPIC's energy projects in Chile to (1) determine if OPIC involved the U.S. private sector and supported local country development in alignment with its mission; (2) assess the inputs, data, and analyses used to assess and approve the projects; and (3) assess the process and internal controls OPIC used to identify and mitigate certain risks.

We selected the OPIC Chile energy portfolio because of its highly concentrated dollar value compared to other countries, and the projects' similarities in being renewable projects and investment guarantees. Using the six projects in OPIC's Chile energy portfolio as case studies, we examined how OPIC met its statutory requirements in assessing and approving projects, mitigated environmental and social risks, and advanced its mission. We also tested the strength of OPIC's internal controls in these areas. For example, we reviewed OPIC's policies and procedures, records management, strategic plan, performance plan, and risk assessment process over environmental and social risk. The scope of the audit did not include an assessment of the financial viability of Chile projects or whether these projects should or should not have been approved.

In addition to examining project outcomes in Chile, we looked at the agency's processes. In testing select OPIC projects, we expected that the case study outcomes would be comparable and assist in determining whether any issues identified were specific to a project or related to overall weaknesses in OPIC's processes. As such, our testing identified various breakdowns in OPIC's agencywide processes.

We conducted two visits to Chile during which we held more than 100 interviews, reviewed documents, and met with Chilean Government officials, subject-matter experts, financial institutions, project sponsors, and staff at the U.S. Embassy in Santiago. We also interviewed OPIC staff in Washington, DC, and reviewed relevant OPIC Chile documentation.

The documents reviewed derived from various OPIC departments, including the Office of Investment Policy, Legal Affairs, Structured Finance and Insurance, Portfolio Management, the Office of the Chief Financial Officer, and the Front Office. We also obtained documents from project developers and sponsors, host country government officials, subject-matter experts, and other publicly available sources.

A lack of available documentation hampered the audit trail, which we noted where relevant throughout the report. Where computer-processed data were used, we provided attribution, explained we could not verify the data, or corroborated the data with other evidence. Of note, the computer-processed information provided by OPIC covering "Percentage of Projects OPIC Staff Monitored by Risk Area" in table 9 did not reconcile with other available evidence. The

purpose of the data was to illustrate that overall the percentage of projects monitored between 2012 and 2016 was low. We also identified issues of data reliability throughout our report.

The audit documentation includes 2012 project data, when the Chile projects' approval processes first began. The projects were approved to receive OPIC investment guarantees between June 2013 and July 2014, which facilitated the construction of the projects. Some OPIC process data that we reviewed dated back to 2008.

Our two visits to Chile were made in June and October 2016. During the first visit—June 13 to June 24, 2016—we met with and interviewed host country government officials, subject-matter experts, officials from financial institutions, project developers and sponsors, and staff at the U.S. Embassy in Santiago. Our second visit—October 3 to October 14, 2016—included site visits to all six project sites in San José de Maipo, Maria Elena, Copiapó, and Diego de Almagro. We also conducted interviews with project employees and contractors, project partners, local community members, and local government officials during the site visits.

## APPENDIX B. CHILE PRICING STRUCTURES

Chile’s energy market has the following pricing structures available for use:

- **Regulated market.** This market generally consists of prices paid by residential and other small consumers with less than 2 MW of consumption. These prices are regulated by the National Energy Commission.
- **Free market.** This market is made up of free clients (large consumers) with more than 2 MW of installed power that choose to negotiate energy contracts—such as purchase power agreements and contracts for differences—directly with generation companies.
- **Spot market.** Also known as a merchant basis, this market covers generators without energy contracts, or those with excess uncontracted capacity. In these cases, energy dispatch is mandatory whenever available and required to operate by the Center for Economic Load Dispatch of Chile. Generators that sell more energy than they produce are required to buy the difference in the spot market at the spot price.

The OPIC-supported Chile projects used free market and spot market pricing structures (see table 11). San Andres, Generación Solar, and Luz del Norte were initially designed to operate on a merchant basis.<sup>34</sup> Amanecer has a 20-year contract for differences in place with Compañía Minera del Pacífico, the largest iron ore producer in Chile. Any energy in excess of the contract falls under the spot market pricing structure. PV Salvador started off selling its energy solely on a merchant basis. It later expanded into the free market, where it currently holds a purchase power agreement with Empresa Eléctrica ERNC-I, a power trading company. The agreement is for approximately 35 percent of the plant’s production for a period of 15 years. Alto Maipo plans to sell the bulk of its energy on the spot market. The remaining will be sold through two power purchase agreements, under the free market pricing structure. One is held with Antofagasta Minerals S.A., a former equity holder in the project and a major company in Chile involved in the copper mining industry. The other is held with Los Pelambres, which is owned by Antofagasta’s parent company Antofagasta plc.

**Table 11. Pricing Structures for OPIC Chile Projects**

	San Andres	Generación Solar	Luz del Norte	Amanecer	PV Salvador	Alto Maipo
<b>Regulated market</b>						
<b>Free market</b>					X	X
<b>Spot market</b>	X	X	X	X	X	X

<sup>34</sup> Project companies for two facilities have subsequently executed, or were actively seeking to sign, energy contracts during the course of OIG fieldwork, expanding into the free market.

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## APPENDIX C. KEY TERMS AND DEFINITIONS

### Parties Involved in Chile Energy Sector

- National Energy Commission. A decentralized public institution in Chile that is responsible for the technical and economic regulation of the energy sector.
- Center for Economic Load Dispatch of Chile. The SIC and SING have independent operators (CDEC-SIC and CDEC-SING) that safeguard the security of the systems, coordinate the electricity grids, and determine the spot market prices by the hour.

### Parties Involved in OPIC Transactions

- Project Sponsor. A sponsor holds equity interest in the project and has to be from the United States. Foreign companies also have the option of participating as additional sponsors depending on the deal. Generally, the project sponsor is a U.S. corporation that meets OPIC's U.S. business involvement requirements in its deals. In some cases, the sponsor can also be the borrower.
- Project Company. This party is the entity that directly undertakes the project, which may or may not be the direct beneficiary of OPIC's support, depending on the proposed structure of the transaction. All of the Chile project companies were local subsidiaries of the project sponsor.
- Lender. A lender—such as OPIC—is the finance institution that provides a portion of the financing for a project. In addition to OPIC, most of the Chile projects had multiple co-lenders, mainly other development finance institutions—such as International Finance Corporation and Inter-American Development Bank.
- Engineering, Procurement, and Construction. This party is responsible for the construction of the power plant. Specifically, each of the Chile project deals had its own contractor to “design, engineer, supply, construct, install, start-up, test and commission” the power plants.
- Operations and Maintenance. A contractor covers the ongoing operations and maintenance of a power plant after completion of its construction. Each of the Chile projects has an operations and maintenance contract in place.

## APPENDIX D. REOCCURRING PARTNERS IN OPIC'S CHILE ENERGY PORTFOLIO, AS OF SEPTEMBER 2016

Company	Project	Country	Year Approved	Maximum Contingent Liability <sup>a</sup> /Exposure	Total
AES Corporation	Amman East Power Plant	Jordan	2007	\$49,209,700	
	Al-Manakher Power Plant	Jordan	2012	201,292,351*	
	Alto Maipo Power Plant	Chile	2014	245,000,000 <sup>^</sup>	\$495,502,051
SunEdison	ESP Urja Solar Plant	India	2011	13,113,893*	
	Azure Solar Plant	India	2011	13,500,837*	
	Karadzhalovo Solar Plant	Bulgaria	2012	40,400,000	
	BOSHOF Solar Plant	South Africa	2013	277,738,540*	
	Amanecer Solar Plant	Chile	2013	141,517,974 <sup>^</sup>	
	San Andres Plant	Chile	2013	59,097,791 <sup>^</sup>	
	Generación Solar Plant	Chile	2014	41,600,098 <sup>^</sup>	
	Ma'an Solar Plant	Jordan	2014	40,462,525*	\$627,431,658

<sup>a</sup> Maximum Contingent Liability is the basis used to measure the maximum amount of compensation for which OPIC would be liable, which is limited by the Foreign Assistance Act. Under most active OPIC contracts, investors may obtain all three coverages—inconvertibility, expropriation, and political violence—but aggregate claim payments may not exceed the single highest maximum insured amount for each contract.

\*These amounts include investment guarantee and insurance product totals.

<sup>^</sup> These projects are a part of OPIC's Chile energy sector portfolio.

Source: OIG analysis of OPIC documentation.

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## APPENDIX E. EXAMPLES OF PROJECTED IMPACT ASSESSMENT DESIGN WEAKNESSES

To measure the projected developmental impact of its projects, OPIC developed a quantitative process where its analysts assess applicant information across five areas and apply a numerical score to each. Below are specific examples of design weaknesses identified through our analysis.

**In some cases, scores did not reflect evidence that was provided or meet the development impact profile parameters for the given area.** For example, under the subsection “New Product/Technique” for Alto Maipo, OPIC gave a maximum score, stating that the project would use “an innovative and new production technology to install protective hard coating to the Project’s Pelton [tunnel] runners in order to reduce the effect of abrasion from sediment in the water on the runners which can lead to reduced plant availability and forced outages.” However, this support does not reflect the intent of the indicator that a maximum score would only be given to the implementation of operational technologies if it is “completely new to the host country.” This technology is not new to Chile under the Alto Maipo project and was previously applied to an active hydropower plant operated by AES Gener in the area.

**Projected development impact criteria were unclear and lacked specificity.** For example, credit was given to a project for providing employee benefits beyond those required by local law. The response by the applicant, however, showed that these benefits were being provided to expats, not to local staff. OPIC’s criteria and its application do not distinguish the difference.

**Application questions lacked the specificity needed to assess projects by the impact profile criteria.** For example, the application question for fiscal impacts did not ask about the 5-year operations details that are used in OPIC’s criteria for assessing projects. To receive a score under this section, a project is to make “payments to the government at some point during the first 5 years of operation.” If it does not provide payments to the government within 5 years, no points are to be given. All six projects were given the maximum score for this section, but none of the projects’ clearance documents mention how the fiscal impact relates to the 5-year criterion.

**Some projected effects are voluntary and not required to be implemented by the project company.** Further, some criteria are one-time occurrences that may have minimal impact or not happen at all. For example, points were given for obtaining industry certifications, such as those of the International Organization for Standardization (ISO), under sector impacts; however, none of the projects were required to follow through with obtaining the ISO certifications.

## APPENDIX F. DEFINITIONS AND STATUS OF COMPLIANCE WITH U.S. PERFORMANCE AND RESULTS REQUIREMENTS

The Government Performance and Results Modernization Act of 2010 (GPRAMA) requires Federal agencies to show mission achievement and create a culture where data and empirical evidence play a greater role in policy, budget, and management decisions. Specifically, GPRAMA requires agencies to develop a performance management framework that includes strategic plans, performance plans, and performance reports.

- Strategic plans articulate the fundamental mission of an organization and lay out long-term general goals for implementing that mission, including the resources needed to reach these goals. Overall, a strategic plan should elaborate goals that correspond to an agency’s mission statement and articulate how it will carry out its mission.
- Performance plans are published annually to show the expected level of performance to be achieved. The plan directly links the agency’s longer-term strategic goals with its daily ongoing work and covers each program activity set forth in the agency’s budget.
- Performance reports show managers, policymakers, and the public annually what the agency actually accomplished and how well the original goals were met for the resources expended. They also explain why, if any, goals are not met.

Table 12 shows requirements of the strategic plan and the performance plan and OPIC’s status with compliance with these requirements.

**Table 12. Status of OPIC Compliance With GPRAMA Strategic Plan and Performance Plan Requirements**

Requirement	Status of Compliance ● Full ● Partial ○ None
<b>Strategic Plan</b>	
1. Mission statement	●
2. General goals and objectives	●
3. Interagency collaboration	○
4. Identify the strategies and resources needed to achieve goals and objectives	○
5. Incorporate input from congressional consultations	○
6. Describe how the agency’s performance goals relate to its strategic goals and objectives	○
7. Identify external factors that could significantly affect goal and objective achievement	○
8. Program evaluations used to develop the strategic goals and objectives	○
<b>Performance Plan</b>	
1. Agency performance goals	●
2. Describe how the agency performance goals contribute to the agency’s general (or strategic) goals	●
3. Describe how the agency performance goals contribute to any federal government performance goals	○

Requirement	Status of Compliance
	● Full ● Partial ○ None
4. Identify agency priority goals	NA*
5. Describe the strategies and resources required to meet the agency performance goals	○
6. Clearly defined milestones	○
7. Identify the organizations, program activities, regulations, policies, and other activities that contribute to each performance goal, both within and external to the agency	○
8. Describe interagency collaboration to achieve the agency performance goals and the Federal government performance goals	○
9. Identify goal leaders	○
10. Balanced set of performance indicators	○
11. Basis for comparing results	○
12. Describe how the agency will ensure data accuracy and reliability	○
13. Describe major management challenges	○
14. Identify low-priority programs	○

\*This requirement does not apply to OPIC.

Source: OIG analysis of GPRAMA and OPIC documents.

## APPENDIX G. SAMPLE OF OIG TESTING RESULTS ON RISK MITIGATION PROCESS

During testing for OPIC Chile projects, we identified strengths and weaknesses in OPIC’s risk mitigation process. Below are excerpts from the testing, organized by risk mitigation step.

**Table 13. OIG Testing Results on OIP’s Risk Mitigation Process**

OIP Risk Mitigation Step	OIG Results on OIP Process for Photovoltaic (PV) Sites
Initial questions posed to applicant during the clearance process	<ul style="list-style-type: none"> <li>• The OIP analyst followed up with questions for each PV site, often multiple follow-ups occurred, showing internal review.</li> <li>• Questions were brief and often yes/no.</li> <li>• Most communication was through email.</li> <li>• Follow up from the borrower did not always require a plan.</li> </ul>
Conditions added to the contract (conditions the borrower must meet—sometimes deliverables the borrower must provide—before disbursement)	<ul style="list-style-type: none"> <li>• Some conditions precedent do not require the borrower to provide proof they were met.</li> <li>• Other development finance institutions required more documentation.</li> <li>• Evidence the analyst received or reviewed deliverables was not always apparent.</li> <li>• Some of the deliverables are not sent directly to OIP for comment but forwarded through multiple parties.</li> <li>• A conditions precedent appendix from another project was accidentally inserted in a PV project.</li> </ul>
Legal check to ensure language in the contract is appropriate and conditions are met	<ul style="list-style-type: none"> <li>• A legal check was done for all PV sites by OIP before OPIC signed the agreement.</li> <li>• In some cases, the outside counsel ensured OPIC that conditions precedent were met.</li> <li>• OIP provided constructive feedback for most PV sites, showing internal review.</li> <li>• Other development finance institutions provided feedback before OIP was notified.</li> <li>• OIP is not always kept in the communications loop on deliverables.</li> </ul>
Clearance memo	<ul style="list-style-type: none"> <li>• The template for the environmental clearance memo is vague compared with International Finance Corporation standards.</li> <li>• Language for the environmental and labor clearance memos was similar for all PV sites.</li> <li>• All three companies for the five PV sites had an environment and social management system, but most were lacking site-specific environmental and social management plans.</li> <li>• The environmental and labor clearance memos for Luz del Norte were more detailed than those for the other PV sites.</li> <li>• Some clearance memos did not sufficiently detail company requirements. For example, only two clearance memos mention workers wearing personal protective equipment.</li> </ul>

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**OIP Risk Mitigation Step    OIG Results on OIP Process for Photovoltaic (PV) Sites**

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Disbursement memo	<ul style="list-style-type: none"><li data-bbox="500 254 1430 323">• Most PV sites had multiple disbursements, and OIP had record of a least one disbursement notification for each of them but not for all sites.</li><li data-bbox="500 323 1430 401">• The disbursement memo package does not require an OIP signature to ensure that all conditions precedent have been satisfied.</li></ul>
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Source: OIG analysis of OPIC documents.

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## APPENDIX H. AGENCY COMMENTS



October 25, 2018

Van Nguyen  
Office of the Inspector General  
Global and Strategic Audits Division Director  
United States Agency for International Development

**RE: Audit of OPIC Projects in Chile (Report No. 9-OPC-18-00X-P)**

Dear Ms. Nguyen:

Please find attached the Overseas Private Investment Corporation's management response to the draft report of your audit of OPIC's Chile energy sector portfolio. OPIC appreciates the constructive engagement with your office over the course of this multi-year audit dating back to 2015. In the years since this audit began, OPIC has implemented numerous procedural and substantive policy changes addressing many recommendations set forth in your draft report. Indeed, several of those policy changes were informed by insights gained by OPIC management and staff in connection with this audit. We are grateful for the time and energy your office devoted to this effort over the past several years.

As you know, on October 5, 2018, the President signed into law the *Better Utilization of Investments Leading to Development (BUILD) Act of 2018*. The act creates a new federal corporation, the *United States International Development Finance Corporation (USDFC)*. OPIC will be terminated and cease operations within the year. As a technical matter, we do not intend to implement the remaining recommended changes to OPIC's policies or procedures on the eve of OPIC's elimination. Practically speaking, however, please be assured that any of your recommendations that OPIC has not already addressed will be carefully considered as the policies and procedures for the new corporation are established. Indeed, in many instances, your

recommendations are very similar to mandatory provisions set forth the BUILD Act. Please note that we have attempted to enumerate those statutory requirements in our response.

Again, thank you for the thorough and diligent review of OPIC's Chile energy sector portfolio.

Sincerely,

/s/

Ray W. Washburne  
President & CEO

## OPIC Response to OIG Recommendations

Division F of Public Law No. 115-254 (10/5/2018), also known as the BUILD Act, established a new wholly owned corporation, the *United States International Development Finance Corporation*. Following a transition period, OPIC's functions will be transferred to the USDFC and OPIC will be terminated. Programs of USAID—the Development Credit Authority and the existing Legacy Credit portfolio under the Urban Environment Program and any other direct loan programs and non-Development Credit Authority guaranty programs—will also be transferred to the new corporation.

Because of this transition, OPIC will take these recommendations into consideration as it engages in the process of creating policies and procedures for the new corporation. OPIC's responses have noted a number of provisions of the BUILD Act that address many of the topics included in OIG's recommendations. (References to section numbers are to sections in P.L. No. 115-254.)

**Recommendation 1: Implement a process and related guidance for verifying and documenting that OPIC is not competing with the private market in a given country.**

**OPIC Response:** Section 1452 requires that the Corporation develop appropriate safeguards, policies, and guidelines to ensure that support provided by it supplements and encourages, but does not compete with, private sector support. It also requires that the Corporation operate in accordance with internationally recognized best practices and standards to avoid market distorting government subsidies and crowding out of private sector lending.

**Recommendation 2: Revamp the development impact profile process to sufficiently capture and assess projects' projected and actual effects, and report reliable data to Congress. This should include establishing clear criteria, requiring evidence, aligning application questions to obtain data needed, and documenting the process for determining actual effects.**

**OPIC Response:** Section 1442 requires the Corporation to develop a successor to the development impact measurement system of OPIC. Section 1444 requires the Corporation to maintain a publicly-accessible database with detailed project-level information and performance metrics.

**Recommendation 3: Implement a formal process for consulting with USAID on its development impact profile criteria that includes the documentation of the consultations.**

**OPIC Response:** Section 1413 states that the Administrator of USAID or his designee shall serve as a member of the Corporation's board of directors as vice chairperson. Section 1413(f) creates a *Chief Development Officer* whose duties include coordination of development policies of the new corporation with USAID.

**Recommendation 4: Implement a process and related guidance to verify and document how projects seeking approval complement U.S. development assistance objectives. It should include considerations for connecting to the Department of State's integrated country strategies and for complementing the work of other U.S. Government agencies and other donors.**

**OPIC Response:** Section 1443(a)(2) requires that the Corporation include in its annual report to Congress a section on how the Corporation complements or is compatible with the development assistance programs of the United States.

**Recommendation 5: Implement a performance management framework that is in compliance with the act and enables OPIC to fully capture its goals and report on progress in achieving its mission.**

**OPIC Response:** Section 1442 states that the Corporation shall develop a performance measurement system to evaluate and monitor projects and guide future projects.

**Recommendation 6: Implement a process with a sound methodology for validating data provided by borrowers in the self-monitoring questionnaire, and strengthen procedures for timely submissions.**

**OPIC Response:** Implementation of Section 1442 and Section 1443 will cover this recommendation.

**Recommendation 7: Update the Office of Investment Policy's process for identifying and selecting projects for site visits, and for tracking and documenting planned and actual visits, so that it is streamlined and based on reliable data.**

**OPIC Response:** Monitoring in the new Corporation has a renewed focus and we will evaluate such processes in the context of the new and existing programs of OPIC that will be a part of the new corporation.

**Recommendation 8: Modify Office of Investment Policy's guidance to include relevant staff members' roles and responsibilities for providing input into independent engineers' scopes of work and documenting reviews of materials related to environmental and social protection.**

**OPIC Response:** Monitoring in the new Corporation has a renewed focus and OPIC will evaluate this recommendation as it determines roles and responsibilities of personnel in the new corporation.

**Recommendation 9: Implement a formal process with defined roles for handling environmental and social concerns that various stakeholders refer to OPIC.**

**OPIC Response:** Section 1415 requires an independent accountability mechanism to annually evaluate and report to the Board and Congress regarding compliance with environmental, social, labor, human rights, and transparency standards, consistent with Corporation statutory mandates. It will also provide a forum for resolving concerns regarding the impacts of specific projects with respect to such standards.

**Recommendation 10: Conduct and document a baseline assessment of all policies and procedures to identify and update outdated material, and implement controls to ensure periodic reviews and updates.**

**OPIC Response:** Baseline policy review will be conducted as a part of transitioning policies to the new agency.

**Recommendation 11: Conduct and document a review of the Office of Investment Policy's guidance to identify any gaps and check for consistency among other offices' related guidance, and update as necessary.**

**OPIC Response:** OPIC will assist in the development of systems that are appropriate for the needs of the new agency.

**Recommendation 12: Consistent with addressing National Archives and Records Administration's recommendations, develop policies and corresponding training for complying with Federal Government records management requirements that define roles and responsibilities and require supervisory compliance reviews, periodic testing of the official records management system, and documentation of these review and testing results.**

**OPIC Response:** OPIC's policies address agency roles and responsibilities, including oversight and supervisory duties. OPIC has recommitted to ensuring that the RLO's receive more formal training in order to be better equipped to operate more effectively and efficiently in their roles in assisting their department with RIM policies and procedures. Annually, the departmental vice-presidents provide a Statement of Assurance that confirms that senior leaders are actively overseeing the administration of records and information management and the preservation of federal records. Additionally, it should be noted that in FY 2017, the Internal Controls Program tested several controls pertaining to the records management program including testing: Policies and Procedures, Training, and Proper disposition of federal records. These changes will be reflected in the new corporation's records management systems.

**Recommendation 13: Conduct a baseline assessment to determine the information access needs of each office to accomplish their respective work, and develop protocols to ensure each office has access to needed information.**

**OPIC Response:** OPIC completed such a baseline assessment in FY2017 which included updating its agency records schedule to ensure that the records management system maintains key records.

**Recommendation 14: Implement a system to track the receipt, review, and certification of all project deliverables, including third-party reports.**

**OPIC Response:** OPIC had already begun piloting such a system. Based on resource availability, such a system is being contemplated for the new agency among several information technology needs.

**Recommendation 15: Develop and implement a borrower evaluation system that contains information on performance, including violations, repayment history, compliance, and development impact. Develop a policy requiring this information to be used in the review process for future deals with reoccurring borrowers.**

**OPIC Response:** The number of reoccurring borrowers is limited. Where there have been reoccurring borrowers, the information in this recommendation is a critical component in seeking credit review of the subsequent transaction, and is considered in OPIC's decision making process. OPIC will give consideration to including an explicit reference to this when recommending policies for the new corporation.

**Recommendation 16: Formalize a process for capturing and disseminating lessons learned agencywide that acknowledges strengths and weaknesses associated with business practices, and modify relevant policies and procedures accordingly.**

**OPIC Response:** Section 1441 establishes a Risk Committee of the board. Among its duties and responsibilities is oversight responsibility of developing policies for enterprise risk management, monitoring, and management of strategic, reputational, regulatory, operational, developmental, environmental, social, and financial risks. OPIC leadership will assist in the development of systems for

the new agency that are appropriate for processing relevant and necessary information for the new agency.

## OPIC Response to Text of Draft Audit Report

**Page 2, second full paragraph:** *“According to OPIC, its priority is increasing commitments to address stakeholder priorities, manage its limited resources, and fulfill its self-sustaining requirement, with less focus on nonfinancial-related internal controls.”*

**OPIC Response:** In FY2017, OPIC enhanced the internal control program by adding a nonfinancial component in an effort to more fully comply with Appendix B of OMB’s A-123. In 2017, three nonfinancial processes were documented, including: records management, Freedom of Information Act (FOIA), and contract oversight. This documentation included identifying risks and controls, and the controls were subsequently tested to ensure they were working effectively. In 2018, two additional processes were added to the cycle, to include travel authorizations and personnel service contracts. Further, both in FY16 and FY17, OPIC reported nonfinancial testing expansion plans through FY2021 to the agency’s Audit Committee of the Board of Directors. As is standard practice, OPIC will report the progress of the internal control program as a result of FY18 testing to the Audit Committee during the December 2018 Audit Committee meeting. OPIC will continue to identify additional nonfinancial processes for review, and include them to our annual test cycle. The agency is committed to maturing the internal controls and risk management program in FY2019, and has in fact given more focus to nonfinancial internal controls. Finally, it is inappropriate to attribute something to OPIC (i.e., “according to OPIC”) unless an official statement adopted by the Corporation, the CEO or the Board states such a position.

**Page 2, second full paragraph:** *“...OPIC’s official records management system did not include key documents for managing and monitoring Chile projects...”*

**OPIC Response:** In May of 2017 the Office of Investment Policy (OIP) updated its departmental file plan, which serves to identify the types of records OIP must maintain, the storage location, and the retention period. Additionally, OPIC has updated its agency records schedule to ensure that the records management system maintains key records. The schedule was approved by to NARA. During the update process, OPIC validated key documents, and the Agency Records Officer engaged directly with each department.

**Page 8, second paragraph:** *“The Alto Maipo hydroelectric generation plant is considered a conventional source of energy in Chile. AES Gener estimates that Alto Maipo will provide an additional 531 MW when completed. However, it is unclear when this conventional source will materialize because construction and environmental concerns have caused setbacks and delays. For example, one contractor suspended construction citing safety concerns, which prompted Alto Maipo to terminate the contract, citing the contractor’s failure to fulfill its contractual obligations.”*

**OPIC Response:** It is more accurate to state that unexpected geology has caused setbacks and delays and our professional evaluation is that environmental concerns did not contribute significantly to delays. The OIG may be conflating two separate events. In 2015 both drilling contractors (CNM and Strabag) had workplace accidents. AES ordered a stop-work so that the accidents could be investigated and remedial action imposed. In 2017 AES terminated the CNM contract.

**Page 12, section heading:** *“Data Captured in OPIC’s Development Impact Profiles Are Insufficient To Measure Project Effects”*

**OPIC Response:** The report should reflect that the Chilean projects were processed under guidelines that were obsolete at the time this audit was conducted. OPIC adopted new XDIP guidelines in 2015.

OPIC’s Development Impact Profile sufficiently measured and weighed the primary development impacts from these projects—the environmental and demonstration impacts derived from increasing the country’s renewable energy generation capabilities in alignment with the Government of Chile’s development objectives. OIG’s statement is not supported where it noted only one projection out of 12 metrics did not meet expectations.

**Page 13, second paragraph:** *“However, major design weaknesses in OPIC’s process for measuring projected effects—including lack of documentation, weighting, and overall lack of rigor—make rating unreliable and at risk for inflation.”*

**OPIC Response:** The information used to evaluate projects’ projected development impact is appropriate, current, complete, accurate, accessible, and timely to the extent that is reasonably feasible at the time of assessment. In addition, the rigor of OPIC’s development impact analyses are commensurate with the cost benefit of the available human resources to conduct these analyses for the purpose of these ratings. OPIC bases its analysis on responses to the Self-Monitoring Questionnaire, a document that clients certify to be true and correct to the best of the client’s knowledge at the time of completion. Updates to the information on the Questionnaire may be needed as the project changes during the period of assessment, or corrected if the client misunderstands the Questionnaire. The agency uses best efforts to capture the most accurate data available at the time of assessment and clarify any obvious misunderstandings on the Questionnaire. Of course, the project data may change over time which would cause the initial rating to be overrated. But there is an equal risk that the initial rating is underrated. Scores are updated during the site monitoring process to capture both unanticipated positive development outcomes, as well as outcomes that did not meet original expectations. OIP uses discrepancies between projected and actual outcomes to reassess OPIC’s metrics, criteria, weightings, and the OIP Questionnaire.

**Page 13, second paragraph:** *“For example, OPIC documented that all six Chile energy project companies will provide employee benefits beyond what is required by local law, and therefore applied the maximum score for this criterion. However, OPIC does not require applicants to provide supporting documentation, and, when we asked the companies to verify this information, only one company stated that it provided benefits beyond what was required by law.”*

**OPIC Response:** Employee contracts that specify employee benefits are generally unavailable at the time of initial assessment. If monitoring reveals that the employee benefits were not implemented as originally anticipated, the score is adjusted downward. Based on previous monitoring results, OPIC already determined that the Employee Benefits metric was problematic and implemented changes to both the assessment criteria and the questionnaire.

**Page 15, first full paragraph:** *“Further, the actual effects data OPIC reports to Congress on its projects worldwide are limited: actual effects are reported out every 3 years and with minimal information.”*

**OPIC Response:** OPIC reports on aggregated actual impacts from SMQ data as well.

**Page 15, footnote number 15:** *“OPIC’s annual self-monitoring questionnaires—submitted to and completed by borrowers—also collect data to “assess the impact on host country economic development.” Despite this stated purpose, the data are not used in evaluating or rescoring projects, only in providing occasional highlights in OPIC’s annual report.”*

**OPIC Response:** This statement is incorrect. Data in SMQ’s are validated during monitoring and the same data is used for rescoring.

**Page 17, first full paragraph:** *“However, according to OPIC, its priority is on increasing commitments, with less focus given to nonfinancial-related internal controls.”*

**OPIC Response:** It is inappropriate to say, “according to OPIC” unless an official statement adopted by the Corporation, the CEO or the Board states such a position. An employee’s perception is not the equivalent of an official agency position.

**Page 18, first paragraph:** *“Based on its risk categorizations, OPIC used a variety of methods to monitor and mitigate identified environmental and social risks, such as third-party monitoring and self-monitoring questionnaires.”*

**OPIC Response:** OPIC does not rely on Self-Monitoring Questionnaires to monitor environmental and social risks. It is more accurate to state that in addition to third party monitoring, OPIC staff conduct site visits.

**Page 18, third paragraph:** *“This monitoring tool is typically included in the independent engineers’ scope of work. Under its Chile energy sector portfolio, each independent engineer’s work included monitoring environmental and social aspects of the projects.”*

**OPIC Response:** Note that, in addition, OPIC and/or the lender group directly contracts for an E&S consultant to directly support monitoring.

**Page 18, first footnote:** *“Some of the methods were required by other lenders involved in the deals.”*

**OPIC Response:** If a certain form of E&S monitoring is required under a Common Terms Agreement—even if the requirement is inserted by another lender—it becomes an OPIC requirement.

**Page 19, second paragraph:** *“However, OPIC could not provide an accurate list of projects eligible for its monitoring selection. Further, OPIC acknowledged that its list of projects visited may not be accurate.”*

**OPIC Response:** It is more correct to state that OPIC’s data system did not produce such a list on demand. However, numerous hours of staff time are spent scrubbing the data to ensure that it produces an accurate list every year when OIP develops its monitoring schedule.

**Page 19, Table 9:** *“Percentage of OPIC Projects Monitored Between 2012 and 2016”*

**OPIC Response:** The correct description of this table is that it reflects the number of projects monitored by OPIC staff. It does not include the number of projects monitored by third parties, which is substantially larger.

**Page 20, first paragraph:** *“However, OPIC does not have clearly defined processes and roles for handling concerns that citizens and other outside groups bring to its attention.”*

**OPIC Response:** This statement is inaccurate. Congress established the OPIC Office of Accountability precisely for this reason and it has publically posted procedures. OPIC itself receives and responds to all concerns in an appropriate manner considering the nature of the concern and the facts specific to the situation. The process and roles are defined in the E&S procedures manual. Although not explicitly stated, OPIC treats third party complaints the same way it treats other evidence of non-compliance—according to the procedures set out in the manual.

**Page 21, first bullet point:** *“HPRM did not include any email correspondences (sic) for Alto Maipo and PV Salvador. In contrast, emails for other Chile projects that were included in HPRM were not labeled, as—(sic) OPIC lacked a standardized naming convention—(sic) and indicated email dumping.”*

**OPIC Response:** OPIC updated the project file structure—effective October 1, 2017—for each business line (Finance, Insurance and Investment Funds) to include a folder for email correspondence. On September 8, 2017, OPIC received approval from NARA for the adoption of the Capstone approach for managing electronic records for both temporary and permanent emails. Also, with the adoption of Insight, OPIC has been able to standardize the types of documents by category and folder structure, and develop a uniform taxonomy to identify each document uploaded into HPRM. This process was validated by the business lines while Insight was developed, and was further refined as part of the creation of the departmental file plans.

**Page 22, first paragraph:** *“NARA made nine recommendations to remedy identified records management weaknesses. According to OPIC, it continues to work to close the recommendations and notes that the implementation of its new Insight system—which can automate document uploads to HPRM—will address many of these concerns.”*

**OPIC Response:** OPIC can confirm that, as of October 2018, four of nine recommendations have been closed. Actions are underway to address, resolve and close the remaining outstanding findings in FY2019 with the development of a risk register for records management that identifies the impact and probability of the risk and itemizes a mitigation plan as appropriate. OPIC continues to conduct annual self-assessments of its program, as mandated by NARA, and in FY 2018, OPIC received a score of 3 out of 4 on its management of email and a score of 94% on its overall RIM program.

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## **APPENDIX I. MAJOR CONTRIBUTORS TO THIS REPORT**

The following people were major contributors to this report: Van Nguyen, audit director; Brianna Schletz, assistant director; Clare Sabo, lead auditor; Martha Chang, program analyst; Susannah Holmes, auditor; Jerry Lawson, attorney advisor; John Nelson, auditor; Steven Ramonas, auditor; Karen Sloan, communications officer; and Hugo Solano, auditor.