



**U.S. International Development Finance Corporation  
Office of Inspector General**

**Key Considerations to Inform DFC's Response in Ukraine**

**Report Number DFC-23-001-MA  
June 6, 2023**



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**U.S. International Development Finance Corporation  
Office of Inspector General**

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**Date:** June 6, 2023

**TO:** Scott Nathan  
Chief Executive Officer  
U.S. INTERNATIONAL DEVELOPMENT FINANCE CORPORATION

**FROM:** Anthony Zakel  
Inspector General

**RE:** Management Advisory - Key Considerations to Inform DFC's Response in Ukraine (Report Number DFC-23-001-MA)

This management advisory highlights key considerations for DFC's evolving response to the war in Ukraine. In preparing this advisory, my office drew insights from prior investigations, audits, and other oversight channels, and considered the Top Management Challenges Facing DFC that we report annually.<sup>1</sup> DFC remains responsible for safeguarding the funds entrusted to it by Congress and the American taxpayers, while also being timely and flexible in its efforts to assist Ukraine. Continued due diligence will help ensure DFC uses any existing and future influx of funding for Ukraine effectively, efficiently, and with appropriate management. It is our hope that this advisory helps inform DFC's efforts toward this end.

While the OIG will continue to provide vigorous oversight of DFC programs and operations, my staff and I are available to discuss and address any questions or requests for additional information.

Sincerely,

A handwritten signature in blue ink that reads "Anthony Zakel".

Anthony "Tony" Zakel  
Inspector General

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<sup>1</sup> Visit <https://www.dfc.gov/oig> for our publicly available reports and more information about DFC OIG.



## Executive Summary

The United States is providing financial support to Ukraine to fight the Government of the Russian Federation's military invasion. While current efforts have focused on much-needed humanitarian and military assistance, the U.S. International Development Finance Corporation (DFC) will likely have a critical role in the U.S. response to the post-war reconstruction. DFC's financial solutions provide an important bridge between federal resources and private sector development, with investments and projects across sectors including energy, healthcare, infrastructure, and technology.<sup>2</sup> DFC products include debt financing, equity investments, feasibility studies, investments funds, political risk insurance, and technical assistance. DFC's CEO Scott Nathan has visited Ukraine several times since the war began to show DFC's support and has met with Ukrainian President Volodymyr Zelenskyy and the local business community. CEO Nathan has stated that he believes new DFC investments will mobilize well over \$1 billion in private sector capital to support the economy of Ukraine.<sup>3</sup> In addition, DFC and the U.S. Agency for International Development (USAID) recently signed a Memorandum of Understanding (MOU) with the Government of Ukraine to support attracting investments to Ukraine as part of their efforts to help address the country's urgent development priorities and economic recovery.<sup>4</sup>

***“DFC is open for business in Ukraine today. We were investing in Ukraine before the war, and we will be here long after this illegal and unjustifiable war ends” said DFC CEO Scott Nathan.***

Source: [DFC April 28, 2023 Press Release](#)

The Government of Ukraine, the European Commission, the World Bank Group, and the United Nations have estimated the cost of reconstruction and recovery to be \$411 billion as of February 2023.<sup>5</sup> The cost of reconstruction and recovery is expected to stretch over 10 years and will require both public and private funds. Those costs have and will continue to grow as the war persists. As of January 1, 2023, Congress has appropriated more than \$113 billion in FYs 2022 and 2023 in assistance to Ukraine.<sup>6</sup> While it has been reported that Ukraine has made significant improvements in its efforts to address corruption, it still faces challenges with implementing internal controls to ensure effective and efficient reconstruction efforts.<sup>7</sup> Several Ukrainian senior officials have recently resigned from their positions due to corruption allegations.<sup>8</sup>

In the report, [United States Strategy on Countering Corruption](#), President Biden stated, “corruption threatens the United States national security, economic equity, global anti-poverty and development efforts, and democracy itself...[By] effectively preventing and countering corruption and demonstrating the advantages of transparent and accountable governance, we can secure a critical advantage for the

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<sup>2</sup> DFC website: <https://www.dfc.gov/what-we-offer/our-products>

<sup>3</sup> DFC Press Release, [DFC CEO Travels to Kyiv, Shows Unwavering Support and Makes Several Announcements](#)

<sup>4</sup> DFC Press Release, [DFC and USAID Plan Galvanize Private Investment in Ukraine](#)

<sup>5</sup> [Ukraine Rapid Damage and Needs Assessment: February 2022 - February 2023](#), March 23, 2023, World Bank Group

<sup>6</sup> [US Direct Financial Support for Ukraine](#), Congressional Research Service, IFI2305, January 10, 2023

<sup>7</sup> [The Architecture of Infrastructure Recovery in Ukraine](#), OECD July 1, 2022

<sup>8</sup> [Zelenskiy Fires Slew of Top Officials, Cites Need to Clean Up Ukraine](#), Reuters Article, January 24, 2023



United States and other democracies.”<sup>9</sup> In addition to the Administrations focus on corruption, the U.S. House of Representative’s Foreign Affairs Committee recently held a hearing entitled *Oversight, Transparency, and Accountability of Ukraine Assistance*.<sup>10</sup> During the hearing, Committee Members raised concerns about U.S. assistance provided to Ukraine and wanted to know what measures the Offices of Inspectors General for the Department of Defense, Department of State, and USAID are taking to ensure U.S. funds are protected from fraud, waste, abuse, and corruption. The Inspectors General testified about their ongoing and coordinated efforts to provide transparent oversight through audits and investigations of military, economic, and humanitarian assistance.

Like those Offices of Inspector General (OIG), the DFC OIG provides independent oversight through audits and investigations of DFC’s programs and operations to prevent and detect fraud, waste, abuse,

***“DFC OIG will be proactive, raise awareness, and urge greater due diligence of DFC assistance in Ukraine”***

and corruption. DFC already has significant investments in Ukraine and will expand its Ukrainian investments in the future. This report provides key considerations for DFC as it evaluates projects, makes commitments, and disperses funds in Ukraine. Our aim is to be proactive, raise awareness, and urge greater due diligence in processes and procedures, as well as incorporate lessons learned from project monitoring efforts that protect

program integrity. DFC OIG has identified the following issues for DFC to consider.

**Enhance due diligence steps to address risks, prevent fraud, and clearly define project goals prior to funding commitments.**

1. Coordinate with stakeholders to align projects with U.S. foreign policy and national security goals.
2. Emphasize transparency and social safeguards as well as environmental impact in commitments with project sponsors.
3. Establish strong controls to prevent financial support to prohibited entities and individuals.
4. Identify and assess fraud risks per GAO Leading Practices and document how DFC will respond to fraud.

**Incorporate lessons learned in project monitoring and evaluation.**

1. Establish *sound* monitoring and evaluation policies that result in *sound* monitoring and evaluation practices.
2. Assess development outcomes and measure development impact across DFC’s Ukraine portfolio.
3. Recognize that third-party monitoring can help address site access challenges but has limitations.
4. Allocate sufficient DFC staff and resources to manage and oversee DFC-supported projects.

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<sup>9</sup> [United States Strategy on Countering Corruption](#), The White House, December 2021

<sup>10</sup> U.S. House Foreign Affairs Committee Hearing: [Oversight, Transparency, and Accountability of Ukraine Assistance](#), March 29, 2023



As one of twenty U.S. Government oversight organizations participating in the Ukraine Oversight Interagency Working Group, DFC OIG is committed to providing DFC with well-informed advice regarding protecting financial assistance provided to Ukraine.<sup>11</sup> DFC OIG is also coordinating with foreign and international law enforcement entities and various domestic and international stakeholders to ensure DFC investments in Ukraine are used as intended.<sup>12</sup>

DFC OIG has a Hotline that receives complaints of fraud, waste, abuse, and corruption involving DFC programs and operations, including mismanagement or violations of laws, rules, or regulations by DFC employees, contractors, or program participants. The Hotline can be reached toll-free at +1 833-OIG-4DFC (644-4332) or online at <https://www.dfc.gov/oig/hotline>. DFC employees, contractors, subcontractors, and partners have the right to report what they reasonably believe to be evidence of wrongdoing, without reprisal for doing so. Whistleblower rights and protections can also be found on the OIG's website.<sup>13</sup>

The graphic features the official seal of the Office of Inspector General, Development Finance Corporation, United States International. The seal is circular with a blue border containing the text "OFFICE OF INSPECTOR GENERAL" and "DEVELOPMENT FINANCE CORPORATION". Inside the seal is an eagle with wings spread, holding an olive branch and arrows, with a shield on its chest. The background of the graphic is a light gray world map. The text is centered and reads: "REPORT FRAUD, WASTE, ABUSE, AND CORRUPTION" in blue, "DFC OIG Hotline" in red, "Toll-Free +1 833-OIG-4DFC" in red, and "Online at [DFC OIG Hotline](https://www.dfc.gov/oig/hotline)" in red.

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<sup>11</sup> [Joint Oversight of the Ukraine Response](#), January 2023, US Department of Defense and [Joint Oversight of the Ukraine Response](#), March 27, 2023

<sup>12</sup> For example, DFC OIG attended the Complex Emergency Working Group meeting at The Hague in 2022, participating in panel discussions and meetings with international law enforcement organizations.

<sup>13</sup> DFC OIG website: [Whistleblower Rights and Protections](#)





Source: Canva Photographs of Destruction in Ukraine



## Purpose

The purpose of this advisory is to proactively highlight key considerations for DFC’s evolving response to the war in Ukraine. As the Office of Management and Budget (OMB) has stated, collaboration between an agency and its OIG on the front end of new or expanded programs “ensures expertise is brought to bear to ensure programs are constructed in ways that strike the [right] balance between efficient results, equitable access, and program integrity, including minimal waste, fraud, and abuse.”<sup>14</sup> In addition, the current Administration has established the fight against corruption as a core United States national security interest, “...bring transparency to the United States’ and international financial systems; and make it increasingly difficult for corrupt actors to shield their activities.”<sup>15</sup>

In preparing this advisory, the OIG drew from prior investigations, audits, and other oversight channels and considered the Top Management Challenges Facing DFC we report annually.<sup>16</sup> DFC remains responsible for safeguarding the funds entrusted to it by Congress and the American taxpayers, while also being timely and flexible in its efforts. Continued diligence will help ensure DFC uses any future influx of funding for Ukraine effectively, efficiently, and with appropriate controls. It is our hope that this advisory helps inform DFC’s efforts toward this end.

## Background

Russia’s military invasion of Ukraine on February 24, 2022, has left 17.6 million people in need of humanitarian assistance, according to the United Nations (UN) Office for the Coordination of Humanitarian Affairs (OCHA) and as of May 26, 2023, OCHA reported that 8 million displaced people had fled Ukraine into neighboring countries and that an additional 5.4 million people were internally displaced within the country.<sup>17</sup>

While current efforts have focused on much-needed humanitarian and military support, some stakeholders have stressed the importance of not waiting until the end of the war to begin planning the postwar period.<sup>18</sup> Because DFC is America’s development finance institution (DFI), we believe it will play a significant role in the upholding U.S. government future commitments to Ukraine through reconstruction of destroyed critical infrastructure. DFC’s financial solutions – including debt financing, equity investments, feasibility studies, investments funds, political risk insurance, and technical assistance – can provide an important bridge between federal resources and private sector development across sectors including energy, healthcare, infrastructure, and technology.<sup>19</sup>

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<sup>14</sup> [Promoting Accountability through Cooperation Among Agencies and Inspectors General](#) (OMB M-22-04), December 3, 2021

<sup>15</sup> [United States Strategy on Countering Corruption](#), The White House, December 2021

<sup>16</sup> Visit <https://www.dfc.gov/oig> for our publicly available reports and more information about DFC OIG.

<sup>17</sup> [Ukraine Humanitarian Response 2023](#), updated May 26, 2023, OCHA

<sup>18</sup> [Enabling an Economic Transformation of Ukraine](#), Center for Strategic & International Studies, January 2023

<sup>19</sup> DFC website: <https://www.dfc.gov/what-we-offer/our-products>





In May 2022, President Biden signed legislation to support Ukraine with \$40 billion in U.S. assistance, leading the effort to provide funding for military, financial, and humanitarian needs.<sup>20</sup> As of January 1, 2023, Congress has appropriated more than \$113 billion of assistance during FY 2022 and FY 2023.<sup>21</sup> Congress has also expressed concern in a recent hearing about this assistance and the importance of OIG oversight of taxpayer dollars to ensure any assistance provided to Ukraine is protected from fraud, waste, abuse, and corruption.

DFC Chief Executive Officer (CEO) Scott Nathan has traveled to Ukraine several times to deepen DFC's engagement with the Ukrainian government, business community, advance potential investment opportunities, and announce new DFC investments. The image on the right depicts some of DFC assistance provided to Ukraine since the war began, including Bank Lviv, Ukrainian Catholic University, and a fund that will provide growth capital to fast-growing, technology-enabled small and medium size businesses. CEO Nathan has also emphasized DFC's commitment to support the private sector in Ukraine before, during, and after the war ends, and that DFC is eager to work with Ukraine and other government and private partners to help address the country's urgent development needs and provide assistance in planning for Ukraine's long-term recovery.<sup>22</sup> In his most recent trip in April 2023, CEO Nathan met with Ukrainian President Volodymyr Zelenskyy and other officials and stated, "DFC is open for business in Ukraine today. We were investing in Ukraine before the war, and we will be here long after this illegal and unjustifiable war ends."<sup>23</sup>

## DFC ASSISTANCE TO UKRAINE SINCE THE WAR BEGAN

- **\$250 Million for Banks in Ukraine**
- **\$25 Million Equity Investment for Horizon Capital Growth Fund IV**
- **\$15 Million 10-Year Loan Portfolio Guaranty to Bank Lviv**
- **Technical Assistance Grant to Ukraine Catholic University**

Source: [DFC Newsroom](#)

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<sup>20</sup> Council on Foreign Relations article [How Much Aid Has the U.S. Sent Ukraine? Here Are Six Charts](#), December 16, 2022

<sup>21</sup> [US Direct Financial Support for Ukraine](#), Congressional Research Service, IFI2305, January 10, 2023. Note, DFC has not received any additional appropriations to provide financial assistance to Ukraine.

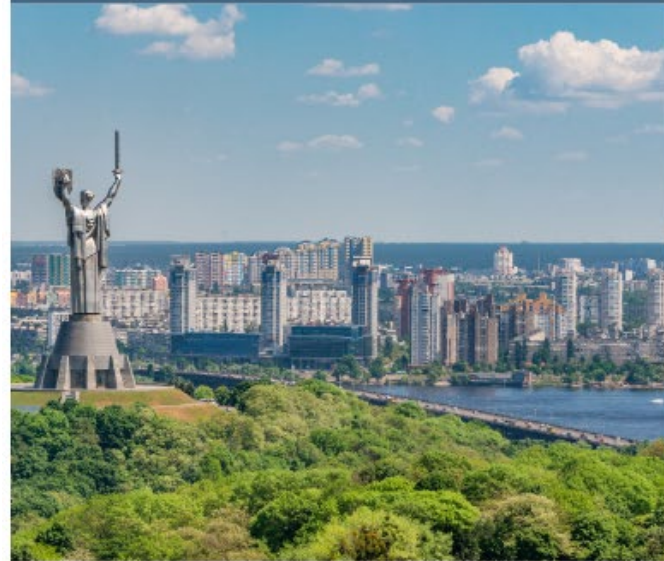
<sup>22</sup> DFC Press Release, [DFC CEO Travels to Kyiv, Shows Unwavering Support and Makes Several Announcements](#)

<sup>23</sup> DFC Press Release, [DFC CEO Travels to Kyiv to Boost Investment and Recovery Efforts](#)

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# ASSISTING UKRAINE



Source: Canva Photographs



## Key Considerations

This advisory identifies areas and issues to empower DFC to proactively address risks, prevent fraud, and clearly define project goals prior to funding commitments and disbursing funds in Ukraine. The risks and challenges we share for DFC’s consideration are intended to enhance DFC’s current processes and procedures that address risks, prevent fraud, and clearly define project goals prior to funding commitments. In addition, DFC should incorporate lessons learned from monitoring and evaluating projects.

### Enhance Due Diligence Steps to Address Risks, Prevent Fraud, and Clearly Define Project Goals Prior to Funding Commitments

The federal oversight community’s work in high conflict areas<sup>24</sup> provides valuable insights that DFC should consider to enhance its current due diligence and “know your customer” process and procedures.

#### *1. Coordinate with Stakeholders to Align Projects with U.S. Foreign Policy and National Security Goals*

OIG’s [FY 2023 Top Management Challenges Facing DFC](#) noted that DFC has many stakeholders, both in the United States and around the world, who are interested in what it does and how it achieves its goals. Competing stakeholder priorities present a significant challenge, particularly in an environment where decisions extend beyond DFC’s immediate control and authority. The BUILD Act, DFC’s reorganization plan, and the coordination report identified the need for strong partnerships among DFC, the Department of State, USAID, the Millennium Challenge Corporation (MCC), and other agencies providing similar services. This challenge applies to DFC’s Ukraine response, which calls for extensive coordination with other U.S. and international public and private organizations.



DFC must continue to ensure sustained stakeholder coordination while exploring, committing to, and investing in projects in Ukraine. There have been instances where U.S. national efforts suffered when stakeholder coordination was weak, lacking, or not aligned with U.S. foreign policy and national security goals. As DFC operates in Ukraine alongside other U.S. government and international organizations, ensuring clear communication, processes for documenting directives, and joint planning will help produce a coordinated response that aligns with U.S. policies and goals.

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<sup>24</sup> USAID OIG, the Special Inspector General for Afghanistan Reconstruction (SIGAR), and the Government Accountability Office (GAO)





## 2. *Emphasize Transparency and Social Safeguards as well as Environmental Impact in Commitments with Project Sponsors*

In the BUILD Act, Congress directed DFC to provide countries with robust alternatives to state-directed investments by using best practices concerning transparency and social safeguards and environmental impact. Under DFC's recent MOU with the Government of Ukraine and USAID, the Government of Ukraine will help identify and develop private sector projects for DFC to consider. While DFC works with the Ministry of Economy of Ukraine, it will need to be transparent and make sure selected projects comply with safeguards and DFC investment requirements.



**Transparency Safeguards.** While it has been reported that Ukraine has made significant improvements in its efforts to address corruption, it still faces challenges with implementing corrective measures. In its report on best practices learned in Afghanistan, SIGAR insisted that any organization receiving U.S. funding be fully transparent so that the Government knows where the money went and how it was used. Without resorting to unduly burdensome reporting requirements, the Government must make it clear that the provision and amount of assistance will depend on access by outside, independent U.S. oversight entities like inspectors general to review accounting practices and operating procedures, as well as monitor and evaluate protocols to safeguard against corruption, diversion of funds, and other abuses.



**Social Safeguards.** Given the importance of rebuilding crucial infrastructure and economic activity in Ukraine, DFC should continue to address social concerns, such as those raised by the Chairman of the Senate Foreign Relations Committee regarding DFC's support of solar energy projects and microfinance loans. Congress emphasized that the Tariff Act of 1930 prohibits the importation of products mined, produced, or manufactured wholly or in part by forced labor, and that they firmly believe that this prohibition should also apply to the development spending and financing provided by the United States to companies overseas. The Chairman also expressed his concern that DFC ensures that its microfinance loans consistently assist target populations and do not create debt traps or exploit poor or vulnerable populations. DFC has taken steps to implement social safeguards by incorporating language into policies and procedures across all its business lines to ensure that its funding is not used for solar components manufactured with forced labor; incorporating language in legal agreements to ensure that its projects deliver development impact and do not harm end borrowers; and supporting a diversified portfolio of energy investments to provide access to electricity and clean sources of energy. DFC should continue these efforts as it makes commitments and funds projects in the Ukraine.



**Environmental Impact.** DFC must also consider the environment in its investments in Ukraine. Preliminary monitoring of the conflict in Ukraine points to significant impacts on urban and rural environments that could leave the country and region with a toxic environmental legacy for generations to come.<sup>25</sup> The UN's Resident Coordinator in Ukraine has noted that millions of displaced Ukrainians need a safe and healthy environment to come home to if they are

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<sup>25</sup> [The Environmental Impact of the Conflict in Ukraine-A Preliminary Review](#), United Nations Environment Programme (UNEP), October 14, 2022



expected to be able to pick up their lives once the fighting ends. All of this will require a colossal clean-up operation, which DFC may be called upon to support.

### *3. Establish Strong Controls to Prevent Financial Support to Prohibited Entities and Individuals*

DFC should ensure strong controls are in place to prevent its financial support in Ukraine from reaching prohibited entities and individuals. While it has been reported that Ukraine has made significant improvements in its efforts to address corruption, the country still faces challenges with implementing internal controls to ensure effective and efficient reconstruction efforts.<sup>26</sup> The State Department highlighted risks of corruption within Ukraine last year, stating, “While the government publicized several attempts to combat corruption, it remained a serious problem for citizens and businesses alike.”<sup>27</sup> A recent example includes the State Department designation of Pavlo Vovk of the Kyiv District Administrative Court, as well as two immediate family members, as prohibited individuals due to interfering in judicial and other public processes in Ukraine. Another example is PrivatBank, a Ukrainian financial institution, whose owners are alleged to have stolen billions of dollars of the bank’s funds, forcing the National Bank of Ukraine to bail out the bank by providing \$5.5 billion in 2016.<sup>28</sup>

In the United States, the System for Award Management (SAM) contains the electronic roster of businesses and individuals excluded from Federal procurement and non-procurement programs. These exclusions are not a punishment but are intended to ensure that only responsible businesses and individuals participate in contracts and financial awards with the Government. Similarly, the World Bank has a Global Suspension and Debarment Directory, which contains information from the exclusion systems of 23 different jurisdictions and institutions. The OIG has been working with DFC since May 2021 to develop a suspension and debarment program to protect taxpayer dollars from bad actors. While this effort is progressing DFC should ensure its due diligence efforts include screening for businesses and individuals already prohibited by other federal agencies or the World Bank to ensure they do not do business with DFC on projects in Ukraine (or elsewhere).

*“...make it increasingly difficult for corrupt actors to shield their activities”*

Source: US Strategy on Countering Corruption

### *4. Identify and Assess Fraud Risks per GAO Leading Practices and Document how DFC Will Respond to Fraud*

The response of the United States and its allies to Russia’s invasion of Ukraine has been swift and ongoing, requiring critical need to assess risk. DFC stated when conditions in a country are most challenging, the need for development finance can be acute, noting that while applying robust risk management procedures can promote sustainable investments it must be balanced against creating the

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<sup>26</sup> OECD report, Policy Responses: Ukraine, Tackling the Policy Challenges, “The Architecture of Infrastructure Recovery in Ukraine, July 1, 2022: <https://www.oecd.org/ukraine-hub/policy-responses/the-architecture-of-infrastructure-recovery-in-ukraine-d768a2e4/>

<sup>27</sup> Department of State, “2021 Ukraine Human Rights Report,” April 15, 2022.

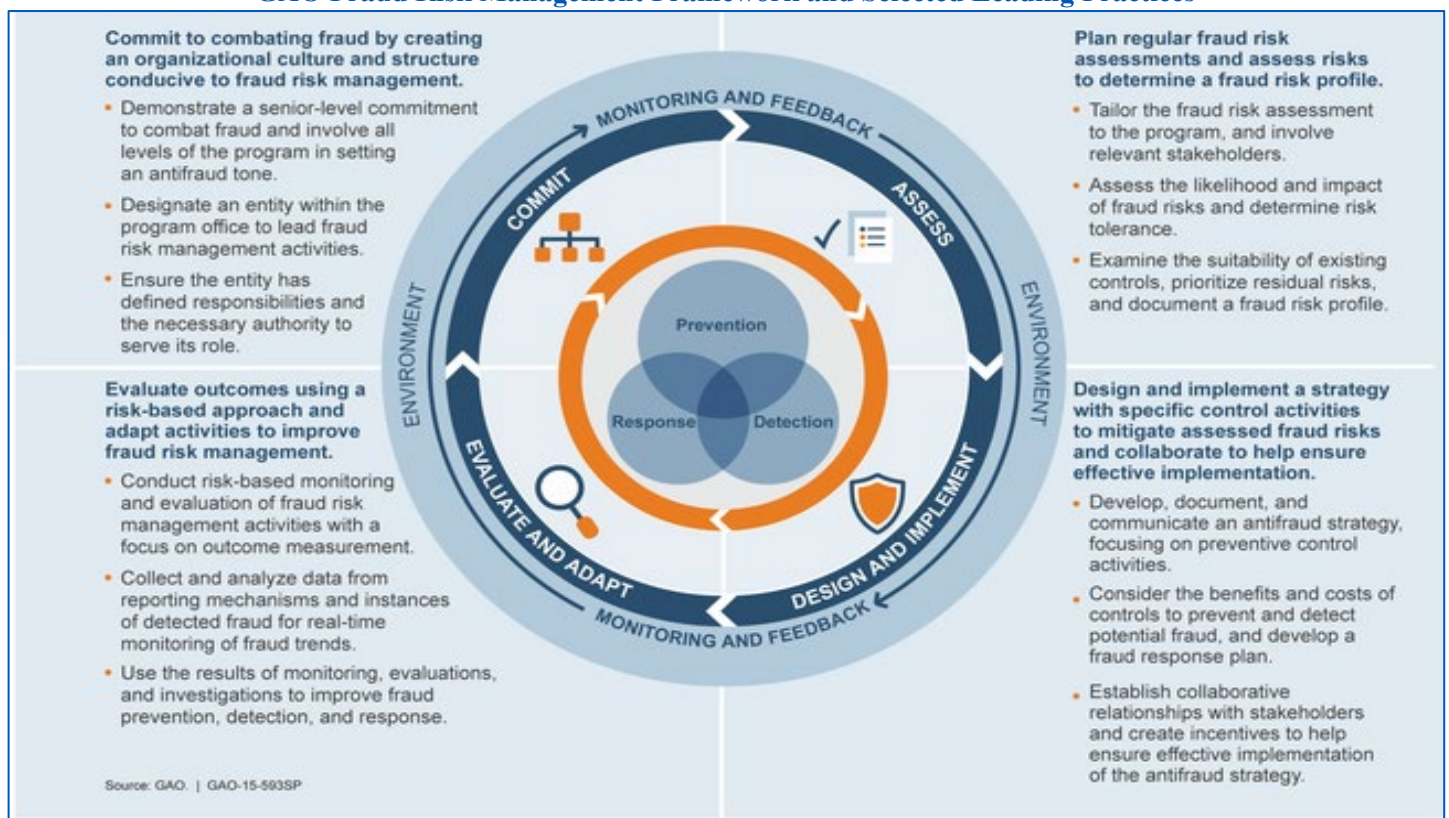
<sup>28</sup> U.S. District Court, Southern District of Florida, <https://www.justice.gov/opa/press-release/file/1302001/download>



perception that DFC is effectively “closed for business” in Ukraine, also making it critical to carefully assess the nature and timing of support DFC provides to Ukrainian businesses. GAO found that providing assistance in unstable or high-conflict areas, such as Ukraine, comes with increased risk of fraud because many of the traditional safeguards do not exist. The risk is further exacerbated by the need for expediency and liquidity. GAO also found that security concerns can make it more difficult for U.S. officials to check for fraud.

To help combat fraud and preserve integrity in government agencies and programs, GAO identified leading practices for managing fraud risks and organized them into a conceptual framework called the Fraud Risk Management Framework, which is highlighted in the graphic below (the Framework).<sup>29</sup> The Framework encompasses control activities to prevent, detect, and respond to fraud, with an emphasis on prevention, as well as structures and environmental factors that influence or help managers achieve their objective to mitigate fraud risks. In addition, the Framework highlights the importance of monitoring and incorporating feedback. Importantly, the Framework has gone through a deliberative process that included interactions with selected federal agency program officials, Offices of Inspector General, the World Bank, and the OECD, as well as antifraud experts from state and local governments, private companies, national audit institutions, and non-governmental agencies. By incorporating the practices in the Framework, DFC can mitigate its fraud risks for investments in Ukraine.

### GAO Fraud Risk Management Framework and Selected Leading Practices



Source: GAO - <https://www.gao.gov/products/gao-15-593sp>

<sup>29</sup> [A Framework for Managing Fraud Risks in Federal Programs](#), GAO-15-593SP, July 2015



At the OIG’s request, DFC recently added a notice in its finance application informing applicants about the role and responsibilities of the OIG, and the expectation to cooperate with the OIG, including providing access to information for OIG investigations and audits.<sup>30</sup> While federal employees are *required* to disclose fraud, waste, and abuse to appropriate authorities, such as the OIG, and to cooperate with OIG investigations and audits, foreign entities implementing projects with U.S. funds generally are not subject to such requirements – unless they are included in a legally-binding agreement. As a standard practice, other federal agencies, such as USAID and MCC, have successfully incorporated such language in their agreements to better protect the funds entrusted to them. Adding such language to DFC’s legally binding agreements would strengthen the OIG’s ability to oversee foreign entities doing business with DFC, and thus better protect DFC’s investments.

## Incorporate Lessons Learned in Project Monitoring and Evaluation



Monitoring and evaluation (M&E) is the process of assessing projects and determining what works, what does not, and what needs to change to achieve the desired result.

### *1. Establish Sound Monitoring and Evaluation Policies That Result in Sound Monitoring and Evaluation Practices*

The BUILD Act requires DFC to create a performance measurement system to evaluate and monitor projects, and to guide plans for future projects. One of DFC’s goals in its strategic plan is to improve impact management, monitoring, measurement, and learning. DFC has made changes within its Office

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<sup>30</sup> [DFC Application for Finance \(DFC-001A\)](#)





of Development Policy (ODP) to achieve this goal. Specifically, it formed the Impact Management, Monitoring, and Learning (IMML) division and has given IMML overall responsibility for certain project oversight tasks. Because of the difficulties inherent in investing in Ukraine already discussed in this advisory, the IMML program will be especially important as DFC provides support to Ukraine. Assuming IMML is properly staffed and empowered, it should allow DFC to strengthen its monitoring and oversight of projects.

## *2. Assess Development Outcomes and Measure Development Impact Across DFC's Ukraine Portfolio*

OIG's audit of DFC's progress with implementing the provisions of the BUILD Act<sup>31</sup> found that DFC had not yet reported actual development impact on a country-by-country basis. A related finding from that audit was that DFC has not developed and implemented policies and procedures to support publicly reporting performance metrics in accordance with the BUILD Act. In addition, OIG's Top Management Challenges Facing DFC identified improving monitoring and evaluating *actual* development impact as a challenge. DFC has made progress in this area, particularly in estimating development impact as part of its investment decision-making process. However, DFC must find appropriate methods to oversee projects to confirm they have *actually* met development impact goals as they progress through completion. DFC still relies primarily on client self-reporting. As DFC continues to increase the size of its investment portfolio, it must take action to assess and report on actual development impact achieved and promotion of our nation's foreign policy as the primary metrics of its success.

## *3. Recognize that Third-Party Monitoring Can Help Address Site Access Challenges but has Limitations*

As USAID OIG's recent management advisory stated, ongoing and systemic monitoring is essential to inform the design and implementation of the U.S. response to the crisis in Ukraine.<sup>32</sup> Third-party monitors can help DFC mitigate access limitations, if used and managed effectively. However, there are examples where third-party monitoring has been ineffective and led to fraud, waste, and abuse. Continual monitoring of operations is especially important, and DFC must ensure technical capacity, data verification and management, and an ability to measure outcomes. Third-party monitoring teams have been known to collude with local communities or leaders to cover up fraud. Further, they often lack the "big picture" perspective about program progress and challenges. While third-party monitors may be necessary, the Government must diligently evaluate them and their standards.

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<sup>31</sup> [DFC Made Significant Progress Implementing Provisions of the BUILD Act](#), DFC OIG, DFC-22-005-C, September 22, 2022

<sup>32</sup> [Key Considerations to Inform USAID's Response in Ukraine](#), USAID OIG, July 22, 2022



#### *4. Allocate Sufficient DFC Staff and Resources to Manage and Oversee DFC-Supported Projects*

The third goal of DFC's Strategic Plan is to improve impact management, monitoring, measurement, and learning. Recently, DFC has made progress in staffing its resources to address M&E. Specifically, DFC has made changes related to staffing and resources within ODP to achieve this goal. As previously discussed, DFC created the IMML division and has given it overall responsibility for certain project oversight tasks. Assuming IMML is properly staffed and empowered, this should allow DFC to strengthen its overall monitoring and evaluation of projects. However, the cost of reconstruction and recovery in Ukraine is estimated to be \$411 billion as of February 2023, is expected to stretch over 10 years, and will require both public and private funds. With that in mind, although DFC's contribution to this effort has not been determined, the need for IMML will only increase as DFC's exposure in Ukraine increases. Coupled with congressional interest in the need for effective oversight of U.S. taxpayer dollars provided to Ukraine, DFC should proactively consider the following when determining M&E staffing levels.

- Increased financial assistance will require personnel to monitor and evaluate projects.
- Evaluate current staff capabilities in preparation for increased activity.
- Assess the time needed to provide effective monitoring.
- Balance current organizational priorities and choose how to allocate limited resources.
- Comprehensively assess whether there are tradeoffs between meeting every administrative requirement and performing quality M&E.

DFC OIG will continue to work with DFC to support this effort by conducting timely audits investigations, and other reviews of DFC's investments in Ukraine.

## **Concluding Observations**

Due to significant destruction of critical infrastructure, reconstruction and recovery in Ukraine will cost hundreds of billions of dollars. While Ukraine has made improvements in its efforts to address corruption, it still faces challenges with implementing internal controls to ensure effective and efficient reconstruction efforts. DFC OIG is fully committed to providing comprehensive oversight over DFC's response to the war in Ukraine. OIG intends to leverage the experience and insights gained from oversight counterparts through their prior work in other areas of conflict. The OIG is coordinating with other OIGs, international law enforcement entities, and other domestic and international stakeholders. OIG audits and investigative work will seek to ensure that DFC's vital investments in Ukraine are protected, and that those who seek to defraud or misuse DFC's investments are held accountable. In addition, OIG will continue to engage with DFC officials to inform our oversight efforts.

OIG appreciates the emphasis DFC leadership has placed on cooperation with our oversight efforts, and the right and obligation of DFC employees and project sponsors to report suspected wrongdoing promptly and directly to the OIG.





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