



## Office of Inspector General

U.S. International Development Finance Corporation

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March 21, 2022

The Honorable Scott A. Nathan  
Chief Executive Officer  
U.S. International Development Finance Corporation  
1100 New York Avenue NW  
Washington, DC 20527

Dear Mr. Nathan:

Welcome to the U.S. International Development Finance Corporation (DFC), and congratulations on your appointment as DFC's Chief Executive Officer (CEO). I was appointed as DFC's first Inspector General in August 2020. I lead the Office of Inspector General (OIG), an independent office within DFC. Our mandate is to provide oversight of DFC programs and operations, and to support its mission through independent audits, inspections, and investigations. The work of my office will help DFC be more effective and efficient by making recommendations to help management meet its statutory international development finance mandate.

DFC OIG was created by the same legislation that created DFC, the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act).<sup>1</sup> My office also derives its authority from the Inspector General Act of 1978, as amended (IG Act).<sup>2</sup> Although the IG Act requires that DFC OIG maintain operational and administrative independence from DFC, it also requires that we provide policy guidance relating to DFC programs and operations to increase their economy and efficiency.

In the spirit of the recently issued Office of Management and Budget (OMB) memo, *Promoting Accountability through Cooperation among Agencies and Inspectors General*,<sup>3</sup> I am taking this opportunity to initiate what I hope will always be open, cooperative, and productive communication with you. With this aim in mind, DFC OIG has identified four critical issues for you to consider as you assume leadership of DFC. These issues are: (1) improving monitoring and evaluation of development impact; (2) managing organizational transition; (3) meeting heightened expectations of Congress and stakeholders; and (4) implementing the BUILD Act.

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<sup>1</sup> [FAA Reauthorization Act of 2018](#) Public Law No. 115-254, Division F – BUILD Act of 2018, pages 3485-3519.

<sup>2</sup> [Inspector General Act of 1978](#) as amended and [Public Law No. 115-254](#).

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

These issues are also discussed in our Top Management Challenges for the past two fiscal years, which I encourage you to read, as well.<sup>4</sup> I have also included an attachment to this letter listing 12 outstanding recommendations from previously issued audit reports for your information. We are currently working with DFC management to address these recommendations.

## **Improving Monitoring and Evaluation of Development Impact**

DFC was created by the BUILD Act to mobilize private capital to support sustainable, broad-based economic growth, poverty reduction, and development that further the foreign policy interests of the United States. Specifically, the BUILD Act requires that DFC develop standards and methods for ensuring development performance—including measurement of the projected and actual development impact of a project. The BUILD Act also requires that DFC prioritize investment in lower income countries (LICs) and lower middle-income countries (LMICs), while also supporting U.S. economic and foreign policy interests. Several stakeholders have asked that DFC document and share quantifiable results of the development impact in host countries and U.S. economic and foreign policy objectives.

Previous audits of DFC's predecessor, the Overseas Private Investment Corporation (OPIC), found that improvements were needed in its performance management framework. Specifically, a 2019 USAID OIG report raised concerns that OPIC did not evaluate the impact of development investments in the Chile Energy portfolio.<sup>5</sup> As required in the BUILD Act, DFC responded by introducing the Impact Quotient (IQ) in June 2020.<sup>6</sup> IQ is DFC's performance measurement tool used to monitor and evaluate project development impact.<sup>7</sup> IQ is a good start toward quantifying development impact. However, DFC must also ensure the current organizational structure encourages project ownership<sup>8</sup>—including monitoring and evaluating projects to measure actual development impact, as well as economic and foreign policy impact. DFC OIG has included a review of DFC's IQ in its audit plan. The audit will assess how the IQ is used in estimating development impact, how it will be used during monitoring and evaluation, and how and when DFC will be able to quantify actual development impact and compare project outcomes against initial estimates.

DFC also published its Roadmap for Impact, which highlights three strategic objectives set forth in the BUILD Act, including: promoting inclusive economic growth with a focus on LICs and LMICs; countering predatory state-directed investments and other malign influence; and

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<sup>4</sup> DFC OIG reports, [Top Management Challenges Facing DFC in FY 2022](#) and [Top Management Challenges Facing DFC in FY 2021](#).

<sup>5</sup> USAID OIG report, OPIC Investments Increased Chile's Energy Capacity, but Weak Processes and Internal Controls Diminish OPIC's Ability to Gauge Project Effects and Risks, (Report Number [9-OPC-19-002-P](#)), February 1, 2019.

<sup>6</sup> DFC Press Release: [DFC Announces New "IQ" Development Impact Measurement Tool](#), June 25, 2020.

<sup>7</sup> DFC website: [DFC Impact Quotient](#).

<sup>8</sup> DFC partners with the private sector to invest in development projects around the world, and its development finance tools are unlike foreign assistance programs in that finance, loan guaranties, equity, and insurance are used to support projects carried out by the private sector. DFC's investments are demand-driven in that usage depends on private sector interest, but DFC does attract applications with outreach and calls for proposals.

supporting countries undergoing market transformation and democratic reform.<sup>9</sup> Through the Roadmap for Impact, DFC aims to mobilize a total of \$75 billion by the end of 2025. Successful implementation of IQ and the Roadmap for Impact will require DFC to develop and maintain relationships with private entities making investments in developing countries to ensure project development goals are met.

DFC must find a reliable way to verify that projects are meeting development impact goals as they progress. Although DFC is making some progress, it still relies primarily on client self-reporting. In some instances, this has allowed extensive fraud to go undetected. One example is the Kabul Marriott Hotel, where a 2017 investigation by the Special Inspector General for Afghanistan Reconstruction (SIGAR) revealed an \$85 million fraud perpetrated against OPIC due to lack of site visits and on-site monitoring.<sup>10</sup> USAID OIG's 2019 audit of OPIC's Chile Energy Portfolio also raised concerns related to client self-reporting. In addition, a 2015 GAO review of OPIC site visit reports revealed compliance issues that clients had not reported, indicating OPIC lacked complete and accurate information on the status of some projects.<sup>11</sup> DFC OIG plans to assess DFC's monitoring and evaluation program as part of an audit of DFC's renewable energy and micro-finance projects in India this coming year.<sup>12</sup>

Effective monitoring and evaluation of projects, which includes site visits, is key to evaluating progress, assessing development impact, developing relationships, and identifying potentially fraudulent activity. To find and implement best practices, DFC should critically evaluate prior OPIC site monitoring processes, as well as consider the organizational structure and practices of other development finance institutions (DFIs). While it is understandable that DFC hasn't performed a significant amount of on-site monitoring during the COVID-19 pandemic, nonetheless, DFC must develop effective strategies and methods for monitoring and evaluating projects despite the challenges posed by the pandemic. Most importantly, DFC must ensure that the primary metrics of its success are actual development impact achieved and promotion of our nation's foreign policy – not money spent.

## **Managing Organizational Transition**

The most important asset of any organization is its people. DFC is fortunate to have inherited many talented and experienced employees from its predecessor agencies, OPIC and USAID's Office of Development Credit Authority (DCA).<sup>13</sup> However, the creation of a new agency with a new mandate from the consolidation of two agencies, each with their own mission and culture, presents a significant management challenge. Strong leadership will be needed to continue blending the two predecessor agencies into a new organization with an expanded mission and its

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<sup>9</sup> [DFC Roadmap for Impact: DFC's Inaugural Development Strategy January 2020 - December 2025](#). The Roadmap was published during the previous Administration. DFC has informed us that it is working to update the Roadmap based upon the priorities of this Administration.

<sup>10</sup> [SIGAR Review Letter: Abandonment of OPIC Projects In Kabul \(SIGAR-17-30-SP\)](#), November 14, 2016.

<sup>11</sup> OPIC Additional Actions Could Improve Monitoring Process (Report Number [GAO-16-64](#), December 2015).

<sup>12</sup> House appropriations 116-444 mandated that DFC OIG re-perform the USAID OIG OPIC Chile energy audit, and thus we will be evaluating DFC supported projects in India with the same objectives, scope, and methodology as the USAID OIG OPIC audit.

<sup>13</sup> USAID reports: [Development Credit Authority Final Report of Evaluations 2008-2013](#), August 2013; and [An Overview of USAID's Credit Guarantees](#).

own culture. Accordingly, DFC OIG identified organizational transition as a Top Management Challenge.<sup>14</sup>

DFC plans to dramatically grow its workforce in the next two years as it seeks to fulfill its expanded mandate and build toward its increased portfolio cap.<sup>15</sup> However, DFC's current organizational structure is still largely based on OPIC's structure. As your management team evaluates DFC's organizational structure and works to blend its predecessor agencies into a cohesive new agency, you may wish to consult GAO's report on mergers and organizational transformation.<sup>16</sup> The report offers detailed implementation steps and best practices, including: ensuring top leadership drives the transformation; establishing a coherent mission and integrated strategic goals; and involving employees to obtain their ideas and gain their ownership for the transformation. GAO also encourages agencies to realize the importance of establishing an organizational culture as key to a successful merger.

Employee satisfaction and morale are key ingredients for a successful organization. Unfortunately, DFC received low employee satisfaction scores in the 2020 Federal Employee Viewpoint Survey (FEVS).<sup>17</sup> It ranked 26 out of 29 small agencies for best places to work by the Partnership for Public Service, and 24 out of 28 for effective leadership. Only 41 percent of DFC employees had respect for senior leaders, satisfaction with the amount of information provided by management, and positive perceptions about senior leaders' honesty, integrity, and ability to motivate employees. In contrast, in 2016, OPIC received an overall employee engagement score of 85 percent, and an effective leadership score of 76 percent. Thus, FEVS scores have declined since OPIC and DCA were merged to form DFC. While change can be difficult and cause dips in morale, DFC management must focus its efforts to ensure that morale stabilizes and improves moving forward. Preliminary 2021 FEVS results show important gains in overall engagement scores, which provide a foundation for further improvement.

Pay is another issue employees noted in FEVS scores as contributing to lower morale. As you know, DFC is in the process of hiring a significant number of new staff while it adds new products and refocuses its investments. The challenges associated with hiring are further compounded by the fact that, although DFC is a federal financial institution and will need to hire candidates with financial expertise, DFC is currently not authorized to offer the higher pay rates offered by other federal financial institutions, such as the Federal Deposit Insurance Corporation, the Federal Reserve, the Federal Housing Finance Agency, and the National Credit Union Administration. In the future, we plan to conduct an audit of DFC's organizational structure and provide best practices and lessons learned based on benchmarking with other DFIs and development banks. In the meantime, DFC management should engage with employees to identify the reasons for low employee satisfaction and implement the substantive changes needed to improve morale.

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<sup>14</sup> [Top Management Challenges Facing DFC in FY 2022](#) and [Top Management Challenges Facing DFC in FY 2021](#).

<sup>15</sup> According to discussions with the former DFC CEO and Town Hall meetings, DFC plans to have 700 employees by September 2023.

<sup>16</sup> GAO report, "Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations, (Report Number [GAO-03-669](#), July 2003).

<sup>17</sup> Federal Employment Viewpoint Survey FY 2020, Best Places to Work in the Federal Government, Partnership for Public Service, [Best Places to Work Rankings](#).

## Meeting Heightened Expectations of Congress and Stakeholders

The bipartisan BUILD Act created new expectations for DFC. DFC's statutory mandate now includes a focus on the economic development of less developed countries, prioritizing LICs and LMICs, and the advancement of U.S. economic and foreign policy interests. In addition, DFC is expected to provide developing countries with a robust alternative to state-directed investments by authoritarian governments and U.S. strategic competitors. DFC also assumed additional expectations and responsibilities through its equity investments program as mandated in the BUILD Act, as well as a Defense Production Act (DPA) loan program mandated by the previous administration.

On December 1, 2020, DFC issued a Direct Equity Request for Applications, accepting proposals for projects in all sectors and countries in which the agency is authorized to invest. However, DFC's equity investments currently are scored as grants, which limits the amount of equity investments it can make. Legislative or administrative action will be needed to overcome this limitation.

Through Executive Order 13922 (EO),<sup>18</sup> which expires on March 26, 2022, the former administration delegated authority to DFC's CEO under the DPA Loan Program to: "make loans, make provision for purchases and commitments to purchase, and take additional actions to create, maintain, protect, expand, and restore the domestic industrial base capabilities, including supply chains within the United States and its territories ('domestic supply chains'), needed to respond to the COVID-19 outbreak." A recent GAO report revealed that, since the DPA Loan Program began in June 2020, DFC and the Department of Defense have received 178 applications; however, as of mid-October 2021, the agencies have completed no loans and disbursed no funds.<sup>19</sup> In addition, DFC did not fully assess and respond to the risks of carrying out the DPA Loan Program.<sup>20</sup>

One issue raised by stakeholders and members of Congress is that DFC's announcements of its investment decisions has led to confusion about the status of these investments. Although DFC has publicly announced billions of dollars in new investments that address development challenges around the world, the lapsed time between those announcements and the disbursement of funds has resulted in stakeholders raising these credibility and reliability concerns. For example, ApiJect Systems America (announced November 2020),<sup>21</sup> Three Seas Initiative (announced December 2020),<sup>22</sup> and the COVID-19 related DPA Loan Program (began

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<sup>18</sup> [Executive Order 13922](#), May 14, 2020.

<sup>19</sup> GAO, "U.S. International Development Finance Corporation: Actions Needed to Improve Management of Defense Production Act Loan Program," ([GAO-22-104511](#), November 2021).

<sup>20</sup> My office investigated circumstances surrounding the \$765 million DPA letter of interest to DFC issued to Eastman Kodak Co. to make drugs at its U.S. factories.<sup>20</sup> Although we did not find any evidence of misconduct on the part of DFC officials, we do plan to review DFC DPA projects, processes, and procedures including the impact of making market-sensitive announcements for financial transactions involving publicly traded companies. [DFC OIG Response to Senator Elizabeth Warren](#), December 2, 2020.

<sup>21</sup> DFC Press Release: [DFC Approves \\$590 Million Loan to ApiJect](#), November 19, 2020.

<sup>22</sup> DFC Press Release: [DFC Approves Over \\$21 Billion New Investments](#), December 10, 2020.

June 2020) were all announced more than a year ago.<sup>23</sup> However, funding for all of them is still pending. More recently, in October 2021, DFC announced a \$50 million loan to Biological E Ltd. to increase capacity to produce at least one billion doses of COVID-19 vaccines by the end of 2022.<sup>24</sup> However, funds have not been disbursed. While some of the time between the announcement and fund disbursement is due to circumstances beyond DFC's control, the timing has not been as expected, which has raised questions and led to complaints from stakeholders that DFC support has not arrived as promised. DFC leadership should educate stakeholders and Congress on DFC's decision-making process, and clearly communicate information about its investment decisions with the appropriate caveats in its public announcements to better set expectations and enhance its credibility.

A major reason for the bipartisan support for the BUILD Act has been to counter the global development influence of the People's Republic of China, and to a lesser extent Russia. When this issue is raised by Congress in the future (e.g., during discussions about reauthorization), DFC will need to demonstrate that it has achieved, or at least made significant progress toward, the heightened expectations created through the BUILD Act. DFC will need to demonstrate that it offers a more viable and attractive alternative than our strategic competitors in the developing world.

DFC faces a difficult challenge in making investments that balance the competing interests of financial performance, development impact, and foreign policy, all while maintaining accountability and transparency. The BUILD Act authorizes DFC to build its portfolio to \$60 billion, and Congress is considering increasing DFC's portfolio capacity to \$100 billion in several legislative proposals, most recently with the America COMPETES Act.<sup>25</sup> As DFC's portfolio grows, we are working with DFC to ensure that we prevent and mitigate fraud, waste, and abuse in its programs and operations. A good first step was our agreement with DFC to provide potential clients with a letter informing them that they are expected to cooperate with the OIG if requested. However, this letter is not equivalent to a legally binding provision in a contract or financing agreement, which is what we asked DFC to implement. We look forward to working with you to find a more robust vehicle to protect taxpayer investments and prevent fraud in DFC's investments.

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<sup>23</sup> DFC notes that the public announcements for all three of these projects were announced much earlier in its decision-making process than they would have been under DFC's normal practice, and that DFC will be diligent in the future to ensure that public announcements of its work are properly caveated.

<sup>24</sup> DFC Press Release: [DFC Approves \\$50 Million in Financing to Expand Biological E Limited](#), October 25, 2021.

<sup>25</sup> [America COMPETES Act of 2022](#) passed in the U.S. House of Representatives on February 3, 2022.

## **Implementing the BUILD Act**

DFC's seven-year authorization expires in September 2025, making the next three years critical to ensuring DFC meets the expectations of Congress and continues to enjoy bipartisan support for reauthorization. Below are some of the most pressing issues facing DFC in implementing the BUILD Act.

- The BUILD Act requires prioritizing investments in LICs and LMICs, which are more challenging and present higher risks, thus making success on these projects contingent on understanding the challenges and mitigating the risks. DFC needs to accurately quantify and demonstrate the development impact DFC's projects are making in LICs and LMICs, and answer the question "what is the impact of these dollars?" DFC must improve performance management, transparency, accuracy, and availability of project data as DFC's commitments grow. DFC OIG identified this as a Top Management Challenge.
- DFC has established a goal that 60 percent of new investment projects be in LICs and LMICs. However, it has been a challenge to identify larger investments in LICs and LMICs, and therefore the dollar value of these new investments is below 60 percent. DFC should work to increase the number of sponsors it uses to identify viable projects in LICs and LMICs.
- DFC is the U.S. government's development finance institution. As such, it should strengthen its coordination and collaboration with agencies such as USAID, the State Department, the Millennium Challenge Corporation, and other agencies, including development finance institutions and development banks, to leverage resources to more efficiently and effectively advance U.S. foreign policy and security objectives. DFC OIG identified this as a Top Management Challenge.

Congress will likely begin debating DFC's reauthorization in 2023 and will assess DFC's progress in reaching the goals set out in the BUILD Act. We are currently conducting an audit assessing DFC's implementation of the BUILD Act. The objectives of this audit are: (a) to assess DFC's progress in implementing the provisions of the BUILD Act; (b) to assess the status of planned actions for those provisions not yet implemented by DFC; and (c) to identify challenges that could affect DFC's timely implementation of those plans. We expect to provide DFC management and Congress the results of our audit later this summer.

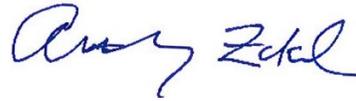
## **Conclusion**

I hope this letter provides useful insights for you to consider as you craft your plans to lead DFC. If you would like additional information on any of the issues discussed in this letter, please do not hesitate to contact me.

The OIG remains committed to keeping the lines of communication open, and to providing effective and timely reviews of DFC's operations and programs. Our goal is to work together with you to ensure DFC's success and re-authorization in 2025 in the same bipartisan fashion that DFC was authorized in 2018. I look forward to regularly meeting with you and your

executive management team to highlight areas where DFC can more effectively meet its critical mission to mobilize private sector investments to advance development in emerging economies around the world and promote U.S. foreign policy goals.

Sincerely,

A handwritten signature in blue ink that reads "Anthony Zakel". The signature is fluid and cursive, with the first name "Anthony" written in a larger, more prominent script than the last name "Zakel".

Anthony "Tony" Zakel  
Inspector General

cc: DFC Board of Directors  
Thomas J. Ullom, Acting Inspector General, USAID OIG

## Attachment- Status of Open Recommendations

Recommendation	Status	Actions
<b>OPIC Implemented Controls in Support of FISMA for Fiscal Year 2017 but Improvements Are Needed (<a href="#">Report Number A-OPC-17-007-C, issued September 28, 2017</a>)</b>		
OPIC’s chief information officer remediate network vulnerabilities identified by the OIG’s contractor, as appropriate, or document acceptance of the risks of those vulnerabilities. [REC #1]	Open and Unresolved	
<b>OPIC Investments Increased Chile’s Energy Capacity, but Weak Processes and Internal Controls Diminish OPIC’s Ability to Gauge Project Effects and Risks (<a href="#">Report Number 9-OPC-19-002-P, issued February 1, 2019</a>)</b>		
OPIC 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. [REC #15]	Open and Unresolved	
<b>OPIC Has Generally Implemented Controls in Support of FISMA for Fiscal Year 2018 (<a href="#">Report Number A-OPC-19-006-C, issued January 30, 2019</a>)</b>		
OPIC chief information officer remediate patch and configuration vulnerabilities in the network identified by the OIG, as appropriate, and document the results or document acceptance of the risks of those vulnerabilities. [REC #2]	Open and Unresolved	
OPIC chief information officer document and implement a process to verify that patches are applied in a timely manner. [REC #3]	Open and Unresolved	
<b>DFC Generally Implemented an Effective Information Security Program for Fiscal Year 2020 in Support of FISMA (<a href="#">Report Number A-DFC-21-005-C, issued January 28, 2021</a>)</b>		
Implement multifactor authentication for network access for privileged accounts. [REC #3]	Open and Unresolved	

**DFC Generally Implemented an Effective Information Security Program for Fiscal Year 2021 in Support of FISMA ([Report Number A-DFC-22-003-C, issued December 1, 2021](#))<sup>26</sup>**

Develop and implement a process to include compensating controls to mitigate risk when accepting the risk of known vulnerabilities. [REC #1] Open and Unresolved

Document and implement a process to verify that laptops are encrypted and remediate instances of nonencrypted laptops. [REC #2] Open and Unresolved

Document and implement a strategy, policy, and procedures to manage supply chain risks with suppliers, contractors, and systems. [REC #3] Open and Unresolved

**DFC Generally Complied with the Digital Accountability and Transparency Act in Fiscal Year 2021 ([Report Number DFC-22-001-C, issued March 8, 2022](#))**

Require business process owners to populate LegalEntityZIPLast4 information in source systems at the time of the transaction. [REC #1] Open and Unresolved

Design and implement policies and procedures that require the agency to report financial assistance awards to FABS within 30 days after an award is issued. [REC #2] Open and Unresolved

Continue to work with Treasury and OMB to clarify the procedure to report subsidy modifications. [REC #3] Open and Unresolved

**DFC Generally Implemented and Effective Government Charge Card Program for Fiscal Years 2020 and 2021 ([Report Number DFC-22-002-C, issued March 8, 2022](#))**

Amend applicable policies and procedures to include steps to ensure the recovery of employee debts including those incurred as a result of any illegal, improper, or erroneous purchases or payments. These steps should also specify the roles and responsibilities of personnel involved in this process. [REC #2] Open and Unresolved

<sup>26</sup> DFC closed 9 of 13 audit recommendations during the previous fiscal year.