Top Management Challenges Facing DFC in FY 2024
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MESSAGE FROM THE INSPECTOR GENERAL

The U.S. International Development Finance Corporation (DFC) was created by the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act) and is authorized until October 2025. DFC began operations in January 2020, consolidating the functions of its predecessor agencies, the Overseas Private Investment Corporation (OPIC) and the U.S. Agency for International Development’s (USAID) Development Credit Authority (DCA). DFC partners with the private sector to finance solutions to the most critical challenges facing the developing world today, thereby advancing economic growth and promoting U.S. national security interests.

DFC supports development projects in a variety of sectors, including energy, healthcare, and infrastructure, by providing equity and debt financing, political risk insurance, and technical assistance. Through the BUILD Act, DFC was granted an expanded lending capacity of $60 billion and a more focused mission on development impact in lower income and lower-middle income countries. DFC had a portfolio of almost $40 billion in FY 2023 and added new commitments totaling more than $9 billion in FY 2023, which was a record year for DFC. (OPIC previously averaged around $4.5 billion of new commitments each year.) In FY 2023, DFC projects supported information and communications technology, gender inequality, food insecurity, minerals, and helped combat the effects of climate change.

DFC Office of Inspector General (OIG) provides independent oversight of DFC programs and operations through audits and investigations designed to prevent, detect, and deter fraud, waste, and abuse in DFC programs, and promote economy, effectiveness, and efficiency in DFC operations. This helps ensure the U.S. Government supports economic growth, promotes U.S. national security interests, and maximizes return on investments. As part of this oversight, the Reports Consolidation Act of 2000 requires federal agencies to include in their performance and accountability reports a statement by their Inspector General summarizing the most serious

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1 Because DFC did not have appropriated budgetary authority until January 1, 2020, the FY 2020 first quarter projects were assigned to OPIC because those projects were authorized and OPIC appropriations was used to commit those projects.
management and performance challenges facing the agency, and progress in addressing those challenges. Recent DFC OIG audits and investigations have revealed the following four Top Management Challenges (TMCs) facing DFC in FY 2024. These challenges are similar to the TMCs identified in FY 2023. This is not surprising given that DFC is a relatively new and evolving organization. Indeed, we expect these challenges to continue over the next several years.

1. **Improve Monitoring and Evaluating Actual Development Impact.** Project monitoring and measuring actual development impact are continued areas of improvement for DFC. Effectively measuring development impact is critical to ensuring DFC meets the intended purpose of its investments. The BUILD Act requires DFC to develop standards and methods for ensuring development performance, including measurement of the projected and actual development impact of a project. DFC must continue to take action to ensure actual development impact is measured.

2. **Improve Performance Management, Traceability, Accuracy, and Availability of Project Data as DFC’s Commitments Grow.** DFC needs to improve performance management, traceability, accuracy, and availability of project data as its commitments grow. The BUILD Act requires DFC to assess the development performance of its portfolio. A weakness in this area is that DFC does not have formal procedures for the systematic collection and storing of documentation from site visits, which inhibits enterprise level tracking against strategic goals.

3. **Balance Heightened Expectations of Congress and Stakeholders While Managing Reputational Risks.** DFC has many stakeholders, in the United States and around the world, who are interested in what it does and how it achieves its goals. Under the BUILD Act, when evaluating development projects, DFC must consider factors relating to environmental and social impact, worker rights, and human rights, among other considerations. DFC faces difficult choices in making investments that balance the competing interests of development impact, foreign policy, and financial performance. Finding the proper balance between these competing priorities presents a significant challenge. DFC OIG believes DFC will face significant challenges in the constantly evolving global environment to advance development through its investments while meeting the expectations of Congress and other stakeholders.

4. **Maintain Efficient Growth and Development.** Maintaining efficient growth and development has been a challenge for DFC since its inception. Now that DFC has a Chief Executive Officer (CEO), Deputy CEO, Chief Risk Officer (CRO), and Chief Development Officer (CDO), DFC has the leadership capability to make major improvements in this area. In many ways, DFC is still a new organization and accordingly, DFC OIG has identified efficient growth and development as a top management challenge for the past three years. This challenge is a significant element in DFC’s plan to ensure it efficiently and effectively accomplishes its goals and objectives. This plan should include

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1 Reports Consolidation Act of 2000, (Public Law 106-531), section (5)(b), states: “[E]ach program performance report shall contain an assessment by the agency head of the completeness and reliability of the performance data included in the report. The assessment shall describe any material inadequacies in the completeness and reliability of the performance data, and the actions the agency can take and is taking to resolve such inadequacies.” Although DFC does not fall under the jurisdiction of the Reports Consolidation Act, DFC OIG proactively publishes its Top Management Challenges each fiscal year as a government-wide best practice.

2 Top Management Challenges Facing DFC in FY 2023
building a mission-critical workforce, developing an ideal organization structure, growing its support staff, and managing potential budgetary constraints.

Each challenge is discussed in greater detail in this report. Please contact me if you would like to discuss the report or have any questions about it.

Sincerely,

Anthony “Tony” Zakel
Inspector General
INTRODUCTION

The U.S. International Development Finance Corporation (DFC) is the United States’ official development financial institution. DFC partners with the private sector to finance up to $60 billion in solutions to the most critical challenges facing the developing world today, while also advancing U.S. foreign policy priorities. DFC uses development finance tools, such as loans, guarantees, equity, and political-risk insurance, to facilitate a positive – and measurable – developmental impact. DFC facilitates investments the private sector might not otherwise make due to heightened risks in developing countries. These investments also provide developing countries an alternative to state-directed investments by authoritarian governments and U.S. strategic competitors. DFC’s seven-year authorization expires in September 2025, making the next two years critical to ensuring it meets expectations.

DFC’s development portfolio has reached almost $40 billion and is expected to grow in the coming years, especially in economies that may not have adequate safeguards to address fraud and corruption. DFC has development initiatives in various regions including Africa and the Middle East; Latin America and the Caribbean; and Indo-Pacific. DFC must also support certain energy and energy-related investments in eligible European and Eurasian countries without regard to host-country income classification. DFC Office of Inspector General’s (OIG) mission is to prevent, detect, and deter fraud, waste, and abuse by conducting and supervising audits and investigations of DFC’s programs and operations worldwide. This is DFC OIG’s fourth year publishing top management challenges facing DFC. The Top Management Challenges for the three prior years are highlighted below.

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This year’s *Top Management Challenges Facing DFC in FY 2024* includes information and insights from DFC OIG’s recent oversight work, including the audit of [DFC Can Improve Oversight of Renewable Energy and Financing Projects in India](#) and the management advisory report, [Key Considerations to Inform DFC’s Response in Ukraine](#). The OIG is dedicated to fulfilling its role of providing oversight that promotes the efficiency and effectiveness of DFC programs and operations and has identified the following Top Management Challenges (TMCs) that DFC should consider.

### Top Management Challenges Facing DFC in FY 2024

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[DFC Can Improve Oversight of Renewable Energy and Financing Projects in India](#)

[Key Considerations to Inform DFC’s Response in Ukraine](#)
1. Improve Monitoring and Evaluating Actual Development Impact

DFC OIG continues to believe that project monitoring and measuring actual development impact are ongoing areas of improvement for DFC. Effectively measuring development impact is critical to ensuring DFC meets the intended purpose of its investments. The BUILD Act requires DFC to develop standards and methods for ensuring development performance, including measurement of the projected and actual development impact of a project. DFC must continue to take action to ensure actual development impact is measured.

DFC’s FY 2022-2026 Strategic Plan\(^6\) includes impact management monitoring, measurement, and learning as one of its goals. DFC utilizes the Impact Quotient (IQ) to monitor and measure the development impact of every project during its life cycle and across multiple categories, including the local economy, inclusion of underserved populations, and innovation. DFC has revised the IQ measurement by implementing a scoring system that rates projects as exceptionally impactful, highly impactful, impactful, limited impact, or indeterminate. DFC plans to enhance the IQ framework to monitor and measure the development impact of every project and improve how DFC evaluates future projects. DFC also plans to modernize IT data governance capabilities to improve their evaluation of development impact and plans to use IT capabilities to assist in analyzing data that measures development impact. DFC believes this will further guide future investment decisions. In addition, DFC established the Impact Management, Measurement, and Learning (IMML) division in its Office of Development Policy (ODP) to review, analyze, and manage the development impact of the DFC portfolio. Furthermore, DFC uses the Impact Thesis and Development Outcome Survey to assess project impact.

OIG believes DFC has made progress in this area, particularly in estimating development impact as part of its investment decision-making process. However, DFC must develop a strategic plan and goals for site visit monitoring.

DFC OIG’s audit report, [DFC Can Improve Oversight of Renewable Energy and Financing Projects in India](#), found that DFC:

1. Does not systematically gather and store documentation from site visits, which inhibits any enterprise level tracking against strategic goals.
2. Was unable to readily provide information regarding the number of site visits performed in the last year.
3. Does not have strategic level objectives, plans, and measurable goals for project site visit monitoring.
4. Lacked a formal process for DFC divisions to develop a yearly site visit monitoring plan that would be linked to strategic plans and goals. DFC’s current site visit monitoring.

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\(^{6}\) US International Development Finance Corporation Strategic Plan FY 2022-2026
monitoring process at the division level is ad hoc, informal, and not driven by strategic goals.

DFC OIG made several recommendations in the report regarding DFC’s project monitoring. DFC agreed with these recommendations and stated it would update policies and procedures to formalize the process for setting annual goals for site visit monitoring. Improving project monitoring will help DFC meet the BUILD Act requirements to assess development performance of individual transactions and its overall portfolio.

In addition, DFC OIG issued a management advisory report, Key Considerations to Inform DFC’s Response in Ukraine, highlighting issues DFC should consider during its evolving response to the war in Ukraine. This report urges DFC to establish sound monitoring and evaluation policies across DFC’s Ukraine portfolio. The report emphasized that these practices would help proactively prevent fraud and address risks.

As DFC continues to increase the size of its investment portfolio, it must seek to improve assessment and reporting of actual development impact achieved and promotion of our nation’s foreign policy as the primary metrics of its success, not the dollar value of its investment portfolio.

2. Improve Performance Management, Traceability, Accuracy, and Availability of Project Data as DFC’s Commitments Grow

DFC OIG believes that DFC needs to improve performance management, traceability, accuracy, and availability of project data as its commitments grow. The BUILD Act requires DFC to assess the development performance of its portfolio. A weakness in this area is DFC does not have formal procedures for the systematic collection and storing of documentation from site visits, which inhibits enterprise level tracking against strategic goals.

With investments in strategically important locations throughout the world, DFC’s ability to effectively conduct performance management is critically important. DFC needs to ensure that financial information and workflow transactions can be traced throughout its portfolio. DFC plans to assess performance by conducting portfolio performance evaluations on attributes including sector, impact theme, geography, DFC product line, and DFC initiative. As DFC’s portfolio grows it is important to maintain visibility in areas such as credit monitoring and portfolio servicing activities, risk management and internal controls, and data collection and analysis reporting.

DFC OIG’s audit report, DFC Can Improve Oversight of Renewable Energy and Financing Projects in India, found that DFC’s records management system can be unreliable in compiling a complete set of documents for individual projects. This was caused by DFC using two systems that do not interface properly to store project information and documentation. The audit also found that data is not tracked for management analysis and strategic plan monitoring.
DFC OIG made recommendations to update DFC’s records management process. DFC agreed with these recommendations and stated it would address the root causes of system interface issues. Improving records management will help DFC meet the BUILD Act requirements to assess development performance of individual transactions and its overall portfolio.

The Government Performance and Results Act Modernization Act of 2010 (GPRAMA) requires agencies to develop a performance management framework that includes strategic plans, performance plans, and performance reports. Further, the BUILD Act requires DFC to create a performance measurement system to evaluate and monitor projects, and to guide plans for future projects. While DFC has made progress in its performance management, this remains a challenge. Previous audits have identified areas to improve DFC’s performance management system, as well as measure the projected effects of development projects. To ensure DFC meets its obligations under GPRAMA and the BUILD Act – and to make sound investment decisions – DFC must continue to improve its performance management.

3. Balance Expectations of Congress and Stakeholders While Managing Exposure to Reputational Risks

DFC has many stakeholders, in the United States and around the world, who are interested in what it does and how it achieves its goals. Under the BUILD Act, when evaluating development projects, DFC must consider factors relating to environmental and social impact, worker rights, and human rights, among other considerations. DFC faces difficult choices in making investments that balance the competing interests of development impact, foreign policy, and financial performance. Finding the proper balance between these competing priorities presents a significant challenge.

DFC OIG believes DFC will face significant challenges in the constantly evolving global environment to advance development through its investments while meeting the expectations of Congress and other stakeholders.

DFC was created as an alternative to state-owned solutions in the developing world that do not place an emphasis on environmental and social standards. DFC is positioned to compete with China and assist the U.S. Government for strategic priorities and must consider reputational risk when making investment decisions. DFC OIG’s audit, DFC Can Improve Oversight of Renewable Energy and Financing Projects in India, found DFC did not adequately support a waiver of environment and social (E&S) policy standards on one of its projects, resulting in $54.91 million in unsupported questioned costs. DFC’s justification for approving the blanket waiver stated the investment was highly developmental and aligned with U.S. foreign policy interests. This justification has been used for most DFC projects, however, the justification does not explain why this particular project was unique. By waiving IFC Performance Standards, DFC undermined its BUILD Act mandate to adhere to best practices concerning environmental and social safeguards. DFC concurred with the audit findings and recommendations, but did not agree with the unsupported questioned costs, stating they believe adequate documentation was provided.
The same audit also identified that DFC needs to improve tracking and reporting significant environmental and social events, particularly fatalities and serious injuries. DFC lacks a centralized reporting system and clear monitoring policies and procedures concerning significant E&S events. This makes it challenging for officials across the corporation to properly monitor projects, particularly projects it has identified as high risk for significant adverse environmental or social impacts. The audit found there were three fatalities and multiple serious injuries on projects we reviewed. The audit made several recommendations addressing treatment of E&S events. DFC agreed with these recommendations and stated it would develop a system to track and report E&S events and data to the Board of Directors and in its Annual Report.

DFC has stated it understands the importance of evaluating E&S factors early in the process. In FY 2024, DFC intends to target investments in critical minerals supply chains to support U.S. national security and economic competitiveness. DFC also intends to improve their process for reviewing E&S development impact in FY 2024. This includes leveraging its resources to evaluate E&S factors early in the process. DFC intends to continue building its capacity to monitor project results and partner with other agencies to communicate U.S. accomplishments.

DFC faces difficult choices in making investments that balance the competing interests of foreign policy, financial performance, and development impact. Further, in accordance with the BUILD Act, DFC is required to be values-based and must hold its project sponsors to higher standards for integrity and compliance with environmental, social, and governance standards than its strategic competitors. DFC should continue to mitigate reputational risk that could occur from its investments. Reputational risk is a danger to the good name or standing of an organization. This risk could occur through a number of ways, including actions of the corporation, its employees, or its partners and suppliers. DFC is taking steps to mitigate associated risks, including improving the monitoring and evaluation of E&S impact of its projects and partnering with other agencies to communicate U.S. accomplishments. DFC OIG believes DFC will continue to face significant challenges in the evolving global environment to advance development while meeting the expectations of Congress and other stakeholders.
4. Maintain Efficient Growth and Development

Maintaining efficient growth and development has been a challenge for DFC since its inception. Now that DFC has a CEO, Deputy CEO, CRO, and CDO, DFC has the leadership capability to make major improvements in this area. In many ways, DFC is still a new organization. Accordingly, DFC OIG has identified efficient growth and development as a top management challenge for the past three years. This challenge is a significant element in DFC’s plan to ensure it efficiently and effectively accomplishes its goals and objectives. This plan should include building a mission-critical workforce, developing an ideal organization structure, growing its support staff, and managing potential budgetary constraints.

Mission-Critical Workforce

DFC plans to grow its workforce to approximately 730 by the end of FY 2024. DFC is increasing investments in human resources management so the corporation can grow quickly. DFC depends on a knowledgeable workforce with expertise in areas such as finance, management, and global business development. DFC has identified that additional administrative support in FY 2024 is needed to grow in the following areas:

1. Expanding overseas presence to source better deals in local markets;
2. Expanding underwriting capacity to grow its portfolio;
3. Improving monitoring and evaluation of its developmental impact; and
4. Scaling mission support functions to meet staff and mandate growth.

DFC OIG’s reports have noted areas where DFC staffing was insufficient. The DFC OIG’s BUILD Act7 audit found that DFC has faced challenges, including multiple changes in administration and leadership. The India audit8 found that DFC’s Office of Development Policy (ODP) staffing appeared to be insufficient to perform robust site visits in comparison to peer development finance institutions. The India audit also found staffing variances between DFC and other development finance institutions.9

Organization Restructuring

DFC is still generally organized like its predecessor, OPIC.10 This prompts the question: Given the change in its mission, is DFC making the right decisions in where and who to hire? A recent reorganization announcement resulted in DFC postponing implementation to allow greater

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8 DFC Can Improve Oversight of Renewable Energy and Financing Projects in India (Report Number DFC-24-002-C issued November 13, 2023)
9 According to 2017 reports
10 The BUILD Act consolidated the U.S. Government’s development finance capabilities by merging the Overseas Private Investment Corporation (OPIC) and the Development Credit Authority (DCA) of the U.S. Agency for International Development (USAID) into a new government corporation.
employee participation in the reorganization process. DFC plans to reorganize the current department structure and change the way it does business internally. DFC is working with the Boston Consulting Group on a study that will help answer the question of how to best organize, as well as develop a hiring strategy. DFC is faced with the challenge of changing an organization structure that has been in place for well over two decades while operating in a way that allows it to be as successful as possible in meeting its new mission, as defined by the BUILD Act.

**Support Staff**

DFC relies on support staff that perform travel, accounting, finance, and human resource activities and processes that directly assist other departments to help improve productivity. These professionals are critical to keeping DFC’s operations moving efficiently and effectively. DFC should continue to grow its support staff professionals to keep up with DFC’s overall growth.

**Potential Budgetary Constraints**

The Continuing Resolution (CR)\(^{11}\) impacts the budgets of all federal agencies. The GAO has found that CRs have resulted in administrative inefficiencies and limited management options in areas such as hiring and travel. Because DFC is a new entity charged with growing the agency to accomplish its mission, budget limitations can impact its ability to hire additional staff. DFC has expressed that additional hiring is needed in FY 2024 to sustain existing work and support future development growth in financing, insurance, and equity activities, as well as evaluation and monitoring activity. Some sources have suggested that moving DFC’s workforce to the higher pay scale used by FDIC, SEC, and others would enable it to compete for experienced professionals that will accelerate hiring and retaining skilled and qualified career staff. Indeed, DFC has had difficulty implementing its newest tool – equity investments – because many candidates declined offers for equity investment positions due to salary constraints.\(^{12}\)

According to media reports,\(^{13}\) DFC hires *unpaid* interns to fill various roles despite President Biden’s 2021 executive order directing agencies to reduce reliance on unpaid interns. While DFC still employs some unpaid interns, they have now started paying certain interns.

The OIG plans to conduct a workforce assessment performance audit in FY 2024 to examine some of these issues; however, this is budget dependent. There is a risk that a full-year CR will negatively impact DFC’s growth. There is also a risk that the limited hiring DFC can do under a CR may be negatively impacted if it is not done strategically to best meet DFC’s mission.

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\(^{11}\) *Selected Agencies and Programs Used Strategies to Manage Constraints of Continuing Resolutions* (GAO-22-104701, issued June 2022) “CRs generally continue the level of funding from the prior year’s appropriations or the previously approved CR from the current year. Full-year CRs provide appropriations for the remainder of the fiscal year and are functionally similar to final appropriations. A CR can include changes from the prior year’s budget that could (1) alter the rate at which funds are utilized, (2) extend an expiring program authority, or (3) provide a specific dollar amount of funding to a program during the CR.”


\(^{13}\) *I took an unpaid internship to gain public experience. But experience doesn’t pay the bills*, The Hill, July 30, 2023
CONCLUSION

DFC OIG offers this report to help inform discussions between DFC, Congress, the Biden Administration, and other stakeholders regarding effective stewardship of U.S. funds dedicated to international financial development. DFC has made significant progress in becoming America’s financial development institution. However, as discussed in this report, more work is needed to address the following challenges it faces.

Top Management Challenges Facing DFC in FY 2024

DFC OIG remains committed to conducting thorough and timely audits and investigations of DFC programs and operations, and to recommending actions to help address the issues and challenges we identify. Our goal is to work together with DFC to ensure its success in fulfilling its mission, and re-authorization in 2025, in the same bipartisan fashion in which DFC was authorized in 2018.
MEMORANDUM

TO: Anthony Zakel
   Inspector General
   DFC – Office of the Inspector General

FROM: Scott Nathan
      Chief Executive Officer

SUBJECT: DFC’s Management Response to “Top Management Challenges Facing DFC in FY 2024”

The U.S. International Development Finance Corporation concurs with the challenges identified in the Inspector General’s Top Management Challenges Facing DFC in FY 2024 report (“TMC”):

- Improving Monitoring and Evaluating Actual Development Impact
- Improving Performance Management, Traceability, Accuracy, and Availability of Project Data as DFC’s Commitments Grow
- Balancing Expectations of Congress and Stakeholders While Managing Exposure to Reputational Risks
- Maintaining Efficient Growth and Development

This TMC mirrors many of the OIG’s positions stated in the report “DFC Can Improve Oversight of Renewable Energy and Financing Projects in India.” While DFC management concurred with the OIG’s recommendations in that report, the Corporation disagrees with some of the conclusions reached in this TMC.

Commitments made at DFC have risen due to the increased authorities and resources that Congress has granted to DFC. DFC agrees that “[e]ffectively measuring development impact is critical to ensuring DFC meets the intended purpose of its investments.” However, DFC disagrees with the OIG’s position that DFC values or emphasizes the dollar amount of its investment portfolio at the expense of its assessment and reporting on actual development impact achieved and promotion of U.S. foreign policy. The size of the investment portfolio certainly matters because greater development impact will not be achieved in the countries in which the Corporation operates without an increasing mobilization of capital. But our internal and external messaging has consistently confirmed that DFC must balance the strength of its financial portfolio with achieving measurable development impact and advancing U.S. foreign policy goals. A chief example of this messaging is in DFC’s Annual Report which includes development impact data collected throughout the year—further indication of the importance of different metrics used to tell DFC’s story. DFC has also prioritized its resource allocation to the review, analysis, and management of its portfolio’s development impact by supporting staffing growth in the Impact Management, Measurement, and Learning (IMML) division of its Office of Development Policy (ODP). IMML’s headcount more than doubled in FY 2023 and this has allowed DFC to provide even greater focus on publicly reporting development impact data, from 52 DFC-
supported projects in FY 2022 to 121 in FY 2023. However, DFC agrees with the OIG that even more support is needed to facilitate greater transparency and reporting, and to that extent, increasing IMML’s capacity is a priority in DFC’s FY 2025 budget request to OMB.

As DFC stated in the management response to the India audit, there is disagreement with the OIG as to the adequacy of support for the waiver of environmental and social policy standards on a particular project. DFC did not concur with the OIG’s determination that the waiver was not appropriately documented or that one specific aspect of the project’s approval record was sufficient grounds to deem the entirety of the project’s record as inadequate and an “unsupported questioned cost.” Furthermore, DFC disagreed with the OIG’s calculation of such costs.
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