



OFFICE OF INSPECTOR GENERAL

U.S. International Development Finance Corporation

DFC Made Significant Progress Implementing Provisions of the Better Utilization of Investments Leading to Development Act

September 22, 2022
Audit Report DFC-22-005-C

1100 New York Avenue, NW
Washington, DC 20527
<https://www.dfc.gov/oig>



Office of Inspector General

U.S. International Development Finance Corporation

DFC Made Significant Progress Implementing Provisions of the Better Utilization of Investments Leading to Development Act

What We Reviewed

The U.S. International Development Finance Corporation (DFC), Office of Inspector General (OIG) contracted with RMA Associates, LLC (RMA) to conduct an audit of DFC's implementation of the provisions of the Better Utilization of Investments Leading to Development Act of 2018 ([BUILD Act](#)). The BUILD Act emphasizes the importance of DFC prioritizing its investments that have significant development impact in less developed countries¹. In providing support in less developed countries, support is prioritized in Lower-Income Countries (LICs)² and Lower-Middle-Income Countries (LMICs).³ The BUILD Act permits support in upper-middle-income countries (UMICs) on a restricted basis⁴. DFC is currently working with the State Department to finalize a new process and procedure for one aspect of support in UMICs: Presidential certification that furthers the national economic or foreign policy interests of the United States.⁵

As part of this audit, we assessed the following information by fiscal years and organization: OPIC (fiscal year 2017 through the first quarter of FY 2020 and aggregate) and DFC (fiscal year 2020 – quarters 2 through 4 – and FY 2021 and aggregate).⁶ This allowed us to determine whether the steps the DFC has taken to prioritize investments in LICs and LMICs in accordance with the BUILD Act were trending towards increased investments in LICs and LMICs. Details

¹ Per Section 1412(c)(1) of the BUILD Act.

² As of 1 July 2019, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of \$1,025 or less in 2018. [WDI - Classifying countries by income \(worldbank.org\)](#).

³ Lower middle-income economies are those with a GNI per capita between \$1,026 and \$3,995. [WDI - Classifying countries by income \(worldbank.org\)](#).

⁴ Per the BUILD Act, Section 1412(c)(2) requires that DFC restrict the provision of "support in a less developed country with an upper-middle-income economy unless (A) the President certifies to the appropriate congressional committees that such support furthers the national economic or foreign policy interests of the United States; and (B) such support is designed to produce significant developmental outcomes or provide developmental benefits to the poorest population of that country".

⁵ While this report focuses on compliance with the BUILD Act, we note that DFC is also permitted to provide support in UMICs and high-income countries (HICs) in Europe and Eurasia in energy and energy infrastructure pursuant to the European Energy Security and Diversification Act of 2019.

⁶ DFC officially began operations in January 2020, with the enactment of its first appropriations, December 20, 2019. Therefore, projects approved under the first quarter of FY 2020 (October 1 – December 31, 2019) were categorized under OPIC.

of the assessment are recorded within scorecards located in Appendix II. Each section of the BUILD Act is summarized in a section-level scorecard.

Our objectives were to: (1) assess DFC's actions to implement provisions of the BUILD Act; (2) assess the status of planned actions for those provisions not yet implemented by DFC; and (3) identify challenges that could affect DFC's timely implementation of those plans.

What We Found

We determined that DFC made significant progress implementing provisions of the BUILD Act. DFC has accomplished this while facing organizational challenges, including administration changes and the Continuing Resolution, which affected DFC's budget and its ability to hire. Specifically, of the 118 subsections of the BUILD Act reviewed, as of May 2022, we found that DFC complied and implemented 116 of the 118 subsections of the BUILD Act. Based on our review, we identified two subsections not fully implemented (2 of 118). The two subsections not fully implemented relate to: (1) the roles, responsibilities, and authorities of the Chief Development and Chief Risk Officers; and (2) DFC publicly reporting performance metrics including development impact on a country-by-country basis in accordance with section 1442(c). In addition, we noted two observations regarding (1) the methodology of calculating and tracking the progress of investments in LICs and LMICs, and (2) the Annual Report timeliness.

Our Recommendations

We made six recommendations to DFC that will further strengthen DFC's implementation of the BUILD Act, when completed. Specifically, we recommended:

The DFC Chief Executive Officer, in conjunction with the DFC Board of Directors:

- **Recommendation 1**: Review the roles, responsibilities, and authorities of the CDO and CRO.

The DFC Chief Executive Officer:

- **Recommendation 2**: Develop and communicate a clear methodology for categorizing income level classifications for projects operating in multiple countries in internal reporting systems and ensure a consistent methodology is used to track progress towards the LIC/LMIC project goal throughout the year and at fiscal year-end.
- **Recommendation 3**: Finalize and communicate policies and procedures around the Presidential certification of support to UMICs.
- **Recommendation 4**: Finalize the approval and communication of financial performance standards.
- **Recommendation 5**: Develop procedures and report performance metrics on DFC's portfolio and development impact on a country-by-country basis.
- **Recommendation 6**: Develop procedures to complete the BUILD Act Annual Report in a timely manner based on the expectations of DFC's congressional stakeholders.



OFFICE OF INSPECTOR GENERAL

U.S. International Development Finance Corporation

Date: September 22, 2022

MEMORANDUM FOR: SCOTT NATHAN
CHIEF EXECUTIVE OFFICER (CEO)

FROM: Anthony "Tony" Zakel
Inspector General

SUBJECT: Final Report – (DFC Made Significant Progress
Implementing Provisions of the Better Utilization of
Investments Leading to Development Act) (Report Number
DFC-22-005-C)

This report presents the results of our audit of DFC's progress in implementing provisions of The Better Utilization of Investments Leading to Development Act (BUILD). The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of RMA Associates, LLC to conduct the audit. In carrying out its oversight responsibilities, OIG reviewed RMA's report and related documentation and inquired of its representatives. We found no instances in which RMA did not comply, in all material respects, with applicable standards.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact me at 202-408-6246

Anthony "Tony" Zakel
Inspector General

Attachment

cc: Chief Operating Officer
Chief Development Officer
Chief Risk Officer
All Vice Presidents
Director of Internal Controls
RMA Associates

**U.S. International
Development Finance Corporation (DFC)**

**DFC Made Significant Progress Implementing
Provisions of the Better Utilization of Investments
Leading to Development Act**

Final Report

Order No: 140D0421F0550

Date: September 22, 2022

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September 22, 2022

Anthony Zakel, Inspector General
Office of Inspector General
U.S. International Development Finance Corporation

Dear Mr. Zakel,

RMA Associates, LLC (RMA) is pleased to submit our performance audit report regarding the U.S. International Development Finance Corporation's (DFC) compliance with the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act). Information on our findings and recommendations is included in the accompanying report.

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

We very much appreciate the opportunity to serve you and will be pleased to discuss any questions you may have.

Sincerely,



RMA Associates, LLC
Arlington, VA

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Background

The Better Utilization of Investments Leading to Development Act of 2018 ([BUILD Act](#)), consolidates, modernizes, and reforms the U.S. Government's development finance capabilities, primarily through 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 agency: the U.S. International Development Finance Corporation (DFC).⁷ In carrying out its mission, DFC partners with the U.S. Department of State, USAID, and other agencies as appropriate to incentivize private sector-led development projects to help countries throughout the developing world sidestep opaque and unsustainable debt traps and help more private sector businesses invest in and open developing markets, including in places that are of key strategic importance to the United States. To meet this mission, DFC is authorized to provide support through 1) Direct Loan and Guarantees 2) Equity investments 3) Political Risk Insurance to cover against losses due to currency inconvertibility, government interference, and political violence; and 4) Technical Assistance and Feasibility Studies that accelerate project preparation. To improve operations, the BUILD Act statutorily prescribed several oversight mechanisms and officers such as the Chief Risk Officer (CRO) and an Independent Accountability Mechanism (IAM), as well as an independent and dedicated Office of Inspector General (OIG), which conducts investigations, inspections, and audits of DFC programs and operations to prevent fraud, waste, and abuse. The BUILD Act also established the position of Chief Development Officer (CDO), who is responsible for coordinating DFC's development policies and implementation efforts with USAID, the Millennium Challenge Corporation (MCC), and other relevant U.S. Government departments and agencies.

DFC officially began operations in January 2020 with the enactment of its first appropriations, December 20, 2019. It supports development projects in a variety of areas, including energy, healthcare, and infrastructure by providing equity investment, debt financing, political risk insurance, and technical assistance. Under the BUILD Act, DFC has a maximum contingent liability of \$60 billion. Through DFC, the U.S. Government accelerates the flow of private capital to less developed countries by supporting private sector investments when financing from other sources is not available. This support is essential to advancing key sectors, such as infrastructure, agriculture, health, and supporting women in lesser developed counties, as well as improving the quality of life for millions by laying the groundwork for modern, inclusive, and sustainable economies. DFC's development portfolio reached \$32.8 billion in FY 2021, an almost ten percent increase from FY 2020's \$29.7 billion and is expected to grow in the coming years. In addition, there are legislative proposals currently being considered by Congress to increase the agency's maximum contingent liability from \$60 billion to \$100 billion.

Objectives

This report presents the results of RMA Associates, LLC's (RMA) audit of DFC's compliance with the BUILD Act.

⁷ [H.R. 302](#), Sec. 1463. TRANSFER OF FUNCTIONS.

The objectives of this audit are as follows:

- Assess DFC’s actions to implement provisions of the BUILD Act;
- Assess the status of planned actions for those provisions not yet implemented by DFC; and
- Identify challenges that could affect DFC’s timely implementation of those plans.

Scope

RMA conducted an audit of DFC’s implementation of the provisions of the BUILD Act. The BUILD Act emphasizes the importance of DFC focusing on investments that have significant development impact. DFC is authorized to provide support in low-income countries (LICs),⁸ lower-middle-income countries (LMICs),⁹ and upper-middle-income countries (UMICs).¹⁰

The BUILD Act requires prioritization of investments in LICs and LMICs and restricts investments in UMICs. Specifically, Sec. 1412(c)(2) states:

(2) SUPPORT IN UPPER-MIDDLE-INCOME COUNTRIES.—The Corporation shall restrict the provision of support under title II in a less developed country with an upper-middle-income economy unless— (A) the President certifies to the appropriate congressional committees that such support furthers the national economic or foreign policy interests of the United States; and (B) such support is designed to produce significant developmental outcomes or provide developmental benefits to the poorest population of that country.

Thus, our assessment included the following information by fiscal years and organization: OPIC (fiscal year 2017 through the first quarter FY 2020 and aggregate) and DFC (fiscal year 2020 – quarters 2 through 4 – and FY 2021 and aggregate). This allowed us to determine whether the steps the DFC has taken to prioritize investments in LICs and LMICs in accordance with the BUILD Act were trending towards increased investments in LICs and LMICs. Additional analysis included:

- 1) Steps DFC takes to prioritize LICs and LMICs per BUILD’s requirement.
- 2) Investments in LICs and LMICs for each fiscal year and aggregate.
- 3) Number and percent of projects and percent of commitments of projects that were with UMICs for each fiscal year and aggregate.
- 4) Whether DFC followed processes for investments in UMICs in accordance with the BUILD Act.

⁸ As of 1 July 2019, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of \$1,025 or less in 2018. [WDI - Classifying countries by income \(worldbank.org\)](https://data.worldbank.org/ny/locations?locations=ny).

⁹ Lower middle-income economies are those with a GNI per capita between \$1,026 and \$3,995. [WDI - Classifying countries by income \(worldbank.org\)](https://data.worldbank.org/ny/locations?locations=ny).

¹⁰ While this report focuses on compliance with the BUILD Act, we note that DFC is also permitted to provide support in UMICs and high-income countries (HICs) in Europe and Eurasia in energy and energy infrastructure pursuant to the European Energy Security and Diversification Act of 2019.

Our review encompassed DFC’s status on the various provisions as of the end of our fieldwork in May 2022. Details of the assessment are recorded within scorecards located in Appendix II. Each section of the BUILD Act is summarized in a section-level scorecard.

Summary of Results

RMA determined that DFC made significant progress and has substantially implemented provisions of the BUILD Act. DFC has accomplished this while facing organizational challenges, including administration changes and the Continuing Resolution, which affected DFC’s budget and ability to hire. Specifically, the BUILD Act audit assessed the following objectives:

Objective 1: Assess DFC’s actions to implement provisions of the BUILD Act. RMA identified 24 sections and 118 subsections of the BUILD Act within the audit scope. Of the subsections, 16 were noted as Key Areas of Interest (KAOI) because they directly related to meeting the primary objectives of the BUILD Act. Of the 118 subsections, we found that 116 were implemented by DFC. We identified two subsections that were not fully implemented (2 of 118) and noted two observations regarding the methodology of calculating and tracking the progress of investments in LICs and LMICs, and the timeliness of the issuance of the Annual Report, as described below (**Table 1**).

Table 1: BUILD Act Subsections Not Fully Implemented or Non-Compliant

| Subsection | Status of Deficiency |
|--|--|
| Subsection 1412(c): DFC shall prioritize the provision of support in less developed countries with a low-income economy or a lower-middle-income economy and restrict provision of support in a less developed country with an upper-middle-income economy unless certified by the President of the United States and designed to produce significant developmental outcomes. | Fully implemented. See observation regarding methodology for calculating and tracking the progress of investments in LICs and LMICs. |
| Subsection 1413(g)(2)(B): Under the guidance of the Chief Executive Officer, the Chief Development Officer shall manage employees of the Corporation dedicated to structuring, monitoring, and evaluating transactions and projects co-designed with the United States Agency for International Development and other relevant United States Government departments and agencies. However, during our audit, the CDO signed a delegation of authority that, in part, delegates the management of Mission Transactions Unit (MTU) to the Office of Development Credit (ODC). | Not fully implemented. |
| Subsection 1442(c): (c) The Corporation shall make available to the public on a regular basis information about support provided by the Corporation and performance metrics about such support on a country-by-country basis (including measurement of the projected and ex post development impact of a project). | Not fully implemented. |

| Subsection | Status of Deficiency |
|--|--|
| Section 1443 Annual Report: After the end of each fiscal year, the Corporation shall submit to the appropriate congressional committees a complete and detailed report of its operations during that fiscal year. | Fully implemented. See observation regarding timeliness. |

Objective 2: Assess the status of planned actions for those provisions not yet implemented by DFC. RMA identified two subsections as not yet fully implemented. While DFC is compliant with the BUILD Act provisions regarding the CRO, both the CRO and CDO positions report to the DFC Board of Directors. In various interviews conducted during the audit, we noted confusion expressed by DFC personnel around the roles and responsibilities of the CDO and the CRO. Given the wide range of potential responsibilities for these positions and the impact their roles could have across the entire agency, DFC could benefit from the CEO, in conjunction with the Board of Directors, further defining the roles, responsibilities, and authorities of the CDO position.

We also noted that DFC should continue its ongoing efforts to publicly report performance metrics including development impact on a country-by-country basis in accordance with section 1442(c).

Objective 3: Identify challenges that could affect DFC’s timely implementation of those plans. RMA did not identify any challenges affecting DFC’s ability to implement the planned actions for subsections that have yet to be fully implemented (See [Summary of Subsections Not Implemented](#)).

However, we noted that DFC has faced challenges since its inception as an agency. The challenges include multiple changes in administration and leadership, as well as the impact of the Continuing Resolution. The Continuing Resolution impacted DFC’s budget and therefore its ability to hire additional staff in FY 2021 and FY 2022. This hindered its ability to meet the growing demands of the organization. We also recognize the challenge in identifying high dollar projects in low-income countries than in upper-middle-income countries, as not only are the risks higher but the scope of projects that investors are willing to support is generally smaller in scale. This was particularly the case during the COVID pandemic.

The DFC Office of Inspector General asked DFC management to provide in writing challenges DFC faces in fulfilling their BUILD Act mandates. DFC management’s response (Impediments to Fulfilling BUILD Act Mandates) is provided verbatim in Appendix IV. It is beyond the scope of this report to opine on whether the challenges that DFC management cite are indeed “impediments” to DFC implementing BUILD Act mandates.

Appendix I contains a more detailed description of our methodology in achieving our audit objectives.

Summary of Subsections Not Fully Implemented and Observations

Subsection 1412(c): Prioritize Support to Less Developed Countries

Subsection 1412(c)(1) requires DFC to prioritize the provision of support in less developed countries with a low-income economy or a lower-middle-income economy. Further, subsection 1412(c)(2) authorizes with restrictions the provision of support in a less developed country with an upper-middle-income economy. DFC is not authorized to support projects in High-Income Countries (HICs) under the BUILD Act.¹¹

DFC prioritizes LICs/LMICs through concrete measures outlined in a memorandum entitled “*How DFC Prioritizes LICs and LMICs While Also Driving Development Outcomes in UMICs*” issued by the acting CEO on December 13, 2021. Those measures include the Impact Quotient (IQ) scoring methodology, DFC’s overseas presence, its business development and implementation resources, and its strategic performance targets. While not required by the BUILD Act, DFC established internal goals for increasing the number of projects in LICs/LMICs and fragile states through the Roadmap for Impact. We observed that to better track the achievement of this internal goal, DFC would benefit from more clearly implementing a methodology for categorizing, tracking, and reporting support in UMICs versus support in LICs and LMICs in multi-country transactions. The team reviewed the prioritization memorandum and determined DFC implemented the provisions outlined in the memorandum and met the internal goal related to projects in LICs/LMICs in 2021.

RMA collaborated with DFC’s Office of Financial & Portfolio Management (OFPM) to obtain data on DFC’s portfolio of supported projects and determined the following (**Table 2** and **Table 3**):

- Since DFC’s began operations in January 2020, the number of projects and commitment amounts in LICs and LMICs have steadily grown, and the number of projects and commitments in UMICs has decreased. However, the number of projects and commitment amounts in LICs and LMICs has not reached the highpoint of the past five fiscal years set in FY 2018 by OPIC;
- In FY 2020 quarters 2 through 4,¹² 56% of projects with 39% of commitments were in LICs and LMICs; and
- In FY 2021, 62% of projects with 55% of commitments were in LICs and LMICs.

In the Roadmap for Impact, DFC established an internal target of 60 percent for LICs, LMICs, and fragile states, i.e., 60 percent of the private sector projects it commits will be in LICs, LMICs, and

¹¹ See Section 1412(c)(2)A. In addition, DFC is permitted to provide support in HIC in Europe and Eurasia in the energy and energy infrastructure sectors under the European Energy Security and Diversification Act of 2019. [22 USC Chapter 102, Subchapter III.](#)

¹² Because DFC did not have appropriated budgetary authority until January 1, 2020, the FY 2020 quarter 1 projects were assigned to OPIC because those projects were authorized and OPIC appropriations was used to commit those projects.

fragile states. Based upon our audit, we noted that in FY 2021 DFC exceeded the 60% goal for the number of projects in LICs and LMICs and as of May 2022 DFC's new project pipeline in LICs and LMICs is more than 60% of its new projects and dollar commitments. However, particular focus on this area is necessary to ensure that DFC continues to prioritize support to LICs and LMICs.

While DFC does have a CEO issued policy that clarifies whether multi-country projects are determined to be either LIC/LMICs or UMICs, RMA determined during our data analysis that DFC does not have a clear and consistently communicated methodology for calculating, tracking, and reporting progress towards their 60% of projects in LICs/LMICs goal. For purposes of this analysis, regional projects were designated an income category based on the weighted average annual income of countries in each region (weighed against the number of projects/commitments per country). Only countries in the region with new OPIC/DFC commitments between fiscal years 2017 and 2021 were considered in the weighted average income calculation.

At origination, consistent with the BUILD Act and DFC's Directive PD-006 (Upper-Middle Income Country Directive), project teams identify whether their transaction is categorized as support in UMICs or LICs/LMICs. If it is support in UMICs, the project team explains why such support may be offered pursuant to Directive PD-006. This is true of single-country or multi-country projects. DFC's Insight system designates multi-country projects as global or regional without identifying if an UMIC is included pursuant to Directive PD-006. When DFC calculates and reports the amount of support for UMICs, the multi-country support will only be accurately reported if users check the origination record. Others may not check the origination record and use present-day composition to show that some countries have graduated to higher income levels. Such discrepancies in reporting may lead to confusion and should be corrected and clearly communicated to DFC staff. Furthermore, reports should indicate which methodology of reporting is being employed for such projects (i.e., as at origination vs present-day).

According to subsection 1412(c)(2), DFC is restricted from providing support to less developed countries with an upper-middle-income economy unless the President certifies to the appropriate congressional committees that such support furthers the national economic or foreign policy interests of the United States, and such support is designed to produce significant developmental outcomes or provide developmental benefits to the poorest population of that country. DFC previously established an approval process for investments in UMICs. However, based on its discussions with Congress, it was determined that a more thorough certification process was needed, and that DFC should work with the Department of State to develop the more thorough certification process. This certification process was finalized with the Department of State during our audit and is now in discussions with Congressional staffers.

Table 2: Number of Projects Originated from FY 2017-FY 2021

| WB Income Category | Total | DFC | | | | OPIC | | | | | | | |
|--------------------|------------|---------------|------------|---------------|------------|---------------|------------|---------------|------------|---------------|------------|---------------|------------|
| | | 2021 | Q4 | 2020 | Q2-Q4 | 2020 | Q1 | 2019 | Q4 | 2018 | Q4 | 2017 | Q4 |
| | | Project Count | Percent |
| HIC | 14 | - | | 1 | | 1 | | 10 | | - | | 2 | |
| UMIC | 175 | 53 | | 31 | | 2 | | 35 | | 27 | | 27 | |
| Subtotal | 189 | 53 | 38% | 32 | 44% | 3 | 43% | 45 | 48% | 27 | 36% | 29 | 38% |
| LMIC | 232 | 74 | | 37 | | 2 | | 37 | | 42 | | 40 | |
| LIC | 43 | 11 | | 4 | | 2 | | 11 | | 7 | | 8 | |
| Subtotal | 275 | 85 | 62% | 41 | 56% | 4 | 57% | 48 | 52% | 49 | 64% | 48 | 62% |
| Total | 464 | 138 | | 73 | | 7 | | 93 | | 76 | | 77 | |

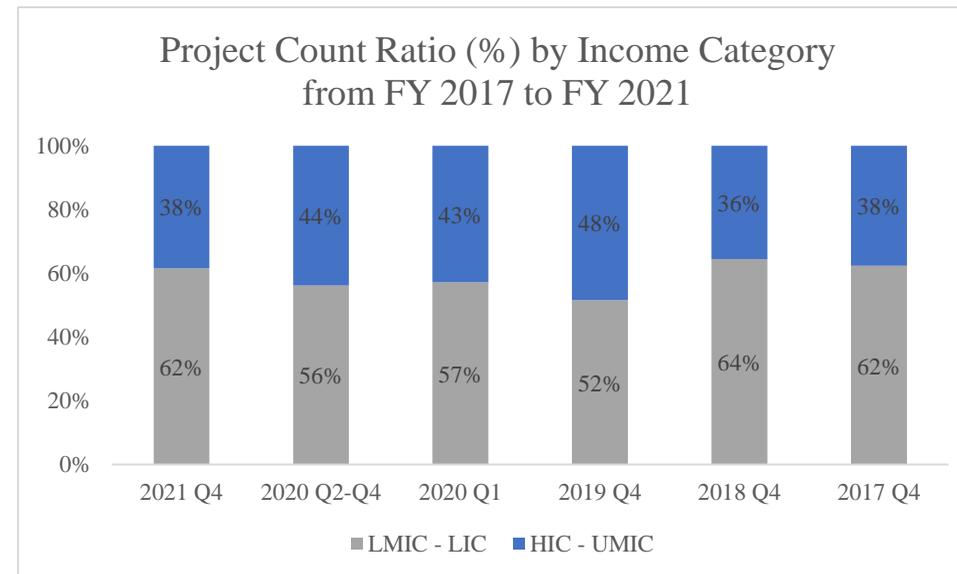
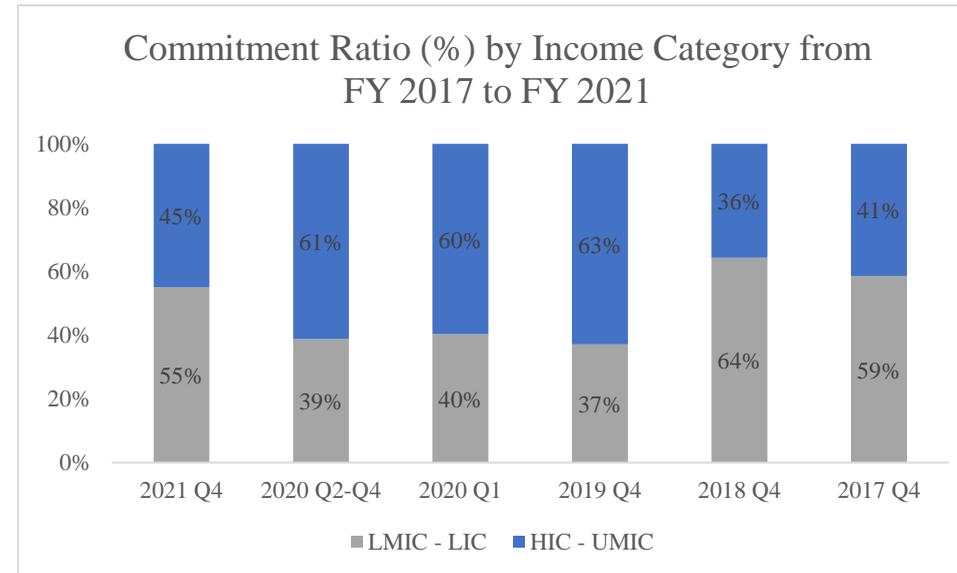


Table 3: Commitment Amounts from FY 2017-FY 2021

| WB Income Category | Total | DFC | | | | OPIC | | | | | | | |
|--------------------|-------------------------|------------------------|------------|------------------------|------------|----------------------|------------|------------------------|------------|------------------------|------------|------------------------|------------|
| | | 2021 | Q4 | 2020 | Q2-Q4 | 2020 | Q1 | 2019 | Q4 | 2018 | Q4 | 2017 | Q4 |
| | | Commitment Amount | Percent | Commitment Amount | Percent | Commitment Amount | Percent | Commitment Amount | Percent | Commitment Amount | Percent | Commitment Amount | Percent |
| HIC | \$2,222,817,808 | - | | \$190,000,000 | | \$44,717,808 | | \$1,733,100,000 | | - | | \$255,000,000 | |
| UMIC | \$9,803,345,001 | \$3,020,689,646 | | \$2,664,284,000 | | \$53,875,000 | | \$1,573,529,250 | | \$1,190,509,939 | | \$1,300,457,167 | |
| Subtotal | \$12,026,162,809 | \$3,020,689,646 | 45% | \$2,854,284,000 | 61% | \$98,592,808 | 60% | \$3,306,629,250 | 63% | \$1,190,509,939 | 36% | \$1,555,457,167 | 41% |
| LMIC | \$9,253,988,862 | \$1,874,636,166 | | \$1,544,676,430 | | \$60,000,000 | | \$1,783,401,726 | | \$1,964,529,072 | | \$2,026,745,468 | |
| LIC | \$2,604,111,023 | \$1,819,273,760 | | \$267,312,231 | | \$6,600,000 | | \$162,871,053 | | \$174,823,579 | | \$173,230,400 | |
| Subtotal | \$11,858,099,885 | \$3,693,909,926 | 55% | \$1,811,988,661 | 39% | \$66,600,000 | 40% | \$1,946,272,779 | 37% | \$2,139,352,651 | 64% | \$2,199,975,868 | 59% |
| Total | \$23,884,262,694 | \$6,714,599,571 | | \$4,666,272,661 | | \$165,192,808 | | \$5,252,902,029 | | \$3,329,862,590 | | \$3,755,433,035 | |



Subsection 1413(g)(2)(B): Further Define Responsibilities of the Chief Development Officer and Chief Risk Officer

RMA observed that DFC’s MTU reports to the ODC rather than the CDO, as specified in subsection 1413(g)(2)(B). During the course of our audit, the CDO signed a delegation of authority that, in part, delegates the management of MTU to ODC.

The establishment of a Chief Development Officer role, both in its very nature and its reporting structure to a Board of Directors, is unique among federal agencies. Further, the Chief Risk Officer (CRO) position was also created with the BUILD Act and also reports to the Board of Directors. In various interviews conducted during the audit, we noted some confusion expressed by DFC personnel around the roles and responsibilities of the CDO and the CRO. Given the wide range of potential responsibilities for these positions and the impact their role could have across the entire agency, DFC could benefit from the CEO, in conjunction with the Board of Directors, further defining the roles, responsibilities, and authorities of the CDO and CRO positions and communicating such across the agency to minimize any possible confusion and the potential for inconsistent or repetitive processes, or unclear objectives.

Table 4 presents the roles and responsibilities of the CDO, as well as DFC management’s status of compliance.

Table 4: Roles and Responsibilities of the Chief Risk Officer and Chief Development Officer

| Subsection | Status |
|---|--|
| 1413(f)(2): The Chief Risk Officer shall, in coordination with the audit committee of the Board established under section 1441, develop, implement, and manage a comprehensive process for identifying, assessing, monitoring, and limiting risks to the Corporation, including the overall portfolio diversification of the Corporation. | DFC’s Senior Management Council, led by the CRO, has developed, implemented, and managed a comprehensive process for identifying, assessing, monitoring, and limiting risks to DFC. While compliant, there is still some questions as to the specific roles and duties of the CRO and CDO. Therefore, DFC would benefit from the CEO working with the Board of Directors further defining the roles, responsibilities, and authorities of the CRO and CDO positions. |

| Subsection | Status |
|---|---|
| <p>1413(g)(2): The Chief Development Officer shall –</p> <p>(A) Coordinate the Corporation’s development policies and implementation efforts with USAID, the Millennium Challenge Corporation (MCC), and other relevant United States Government departments and agencies, including directly liaising with missions of the USAID, to ensure that departments, agencies, and missions have training, awareness, and access to the Corporation’s tools in relation to development policy and projects in countries</p> <p>(B) under the guidance of the Chief Executive Officer (CEO), manage employees of the Corporation that are dedicated to structuring, monitoring, and evaluating transactions and projects co-designed with the USAID and other relevant United States Government departments and agencies</p> | <p>Although DFC has demonstrated effort coordinating with offices outside of the CDO, the breadth of DFC’s development-related coordination activities has the potential to create inconsistent and repetitive processes and objectives without a clearly defined reporting structure.</p> <p>Management of internal coordination between the CDO and various DFC groups is necessary to mitigate such discrepancies. Furthermore, RMA observed that DFC had assigned the CDO’s responsibility to manage employees for coordination activities as outlined in subsection 1413(g)(2)(B) (the MTU) to the ODC, which is contrary to the requirements of the BUILD Act. However, during the course of our audit, the CDO signed a delegation of authority that, in part, delegates the management of MTU to ODC. As noted above, DFC would benefit from the CEO coordinating with the Board of Directors further defining the roles, responsibilities, and authorities of the CRO and CDO positions.</p> |

Subsection 1442(a) and 1442(c): Performance Measurement System and Reporting

According to subsection 1442(a) of the BUILD Act, DFC is required to develop a performance measurement system to evaluate and monitor projects supported by DFC and to guide future projects. Section 1442(b) requires that DFC develop standards for, and a method for ensuring, appropriate development performance, including measurement of the projected and post development impact of a project. DFC has developed the IQ framework as a tool to enhance the reviews, evaluations, and monitoring of projects and can provide guidance for future projects. Section 1442(c) requires DFC make available to the public on a regular basis information about support provided by the Corporation under title II and performance metrics about such support on a country-by- country basis.

RMA observed that the current performance measurement system will need further development to be fully implemented for subsection 1442(b) and (c). DFC has not finalized and communicated the financial performance standards for the Corporation’s portfolio. DFC has not developed and implemented policies and procedures to support the public reporting of performance metrics and development impact on a country-by-country basis.¹³ As previously noted, DFC does not have a

¹³ Development impact is a challenge that we noted in our March 2022 letter to the Chief Executive Officer: [DFC OIG Letter to CEO](#)

consistent methodology for counting multi-country investment projects and tracking progress towards their internal goal of 60 percent of projects being in LICs and LMICs.

Although DFC maintains a public database that includes the Public Information Summary of DFC's review of each project's developmental objectives and environmental and social assessments, DFC has not published information regarding performance metrics for projects by country. Approximately 15% of the projects support multiple countries and will need metrics defined to address development impact on a country-by-country basis.

Section 1443 Annual Report

RMA observed that the Annual Report published by DFC incorporates all elements required by Section 1443 of the BUILD Act. DFC issued the 2021 Annual Report on May 19, 2022, which is more than seven months after the fiscal year that ended on September 30, 2021. Because the BUILD Act does not define a timeframe within which DFC must issue the Annual Report, DFC should consult with Congressional stakeholders as to expectations on when this report should be issued.

Summary of Recommendations, Management Comments and Evaluation of Management Comments

Recommendations

RMA recommends that the DFC Chief Executive Officer, in conjunction with the DFC Board of Directors:

- **Recommendation 1**: Review the roles, responsibilities, and authorities of the CDO and CRO.

RMA recommends that the DFC Chief Executive Officer:

- **Recommendation 2**: Develop and communicate a clear methodology for categorizing income level classifications for projects operating in multiple countries in internal reporting systems and ensure a consistent methodology is used to track progress towards the LIC/LMIC project goal throughout the year and at fiscal year-end.
- **Recommendation 3**: Finalize and communicate policies and procedures around the Presidential certification of support to UMICs.
- **Recommendation 4**: Finalize the approval and communication of financial performance standards.
- **Recommendation 5**: Develop procedures and report performance metrics on DFC's portfolio and development impact on a country-by-country basis.
- **Recommendation 6**: Develop procedures to complete the BUILD Act Annual Report in a timely manner based on the expectations of DFC's congressional stakeholders.

Management Comments

DFC concurred with RMA's recommendations. See Appendix III for management's comments in their entirety.

For Recommendation 1, DFC's Office of the Chief Executive Officer in conjunction with the Board of Directors concurred, stating *"that a review of the roles, responsibilities and authorities in consultation with the Board is a worthwhile undertaking considering the importance of these offices within the organization."*

For Recommendation 2, DFC's Office of Development Policy concurred to developing a methodology and reporting approach that maintains the continuity of origination records.

For Recommendation 3, DFC's Office of General Counsel concurred to finalizing and communicating around the Presidential certification of support to UMICs that furthers the national economic or foreign policy interests of the United States.

For Recommendation 4, DFC’s Office of Financial and Portfolio Management concurred and will continue ongoing efforts to finalize and communicate the financial performance standards for the agency’s portfolio.

For Recommendation 5, DFC’s Office of Development Policy concurred and stated, “*In FY 2022, DFC developed procedures to report development impact on a country-by-country basis. In FY 2023, DFC will begin reporting development impact metrics on a country-by-country basis based on the data obtained from Development Outcome Surveys (Form 008) completed by DFC counterparties.*”

For Recommendation 6, DFC’s Office of External Affairs concurred, stating “[they] *already advised Congressional stakeholders that Annual Report deadline will be the end of February each year.*”

Table 5 highlights the target resolution dates for each recommendation.

Table 5: Target Resolution Dates

| Recommendation | Target Resolution Date |
|------------------|------------------------|
| Recommendation 1 | Second quarter FY 2023 |
| Recommendation 2 | First quarter FY 2023 |
| Recommendation 3 | First quarter FY 2023 |
| Recommendation 4 | Fourth quarter FY 2023 |
| Recommendation 5 | First quarter FY 2023 |
| Recommendation 6 | First quarter FY 2023 |

Evaluation of Management Comments

RMA agrees with management’s comments in response to the recommendations and we believe the actions stated will address the findings. RMA noted that DFC did change the language for five of six recommendations (**Table 6**).

Table 6: Changes by DFC to Recommendations

| Number | Recommendation from RMA | Recommendation from DFC | Status |
|--------|---|---|---------|
| 1 | Review the roles, responsibilities, and authorities of the CDO and CRO. | Define the roles, responsibilities, and authorities of the CDO and CRO. | Changed |

| Number | Recommendation from RMA | Recommendation from DFC | Status |
|--------|--|---|---------|
| 2 | Develop and communicate a clear methodology for categorizing income level classifications for projects operating in multiple countries in internal reporting systems and ensure a consistent methodology is used to track progress towards the LIC/LMIC project goal throughout the year and at fiscal year-end. | Develop and communicate a clear methodology for categorizing income level classifications for projects operating in multiple countries in internal accounting and reporting systems and ensure a consistent methodology is used to track progress towards the LIC/LMIC project goal throughout the year and at fiscal year-end. | Changed |
| 3 | Finalize and communicate policies and procedures around the Presidential certification of support to UMICs. | Finalize and communicate policies and procedures around the Presidential certification of support to UMICs that furthers the national economic or foreign policy interests of the United States. | Changed |
| 4 | Finalize the approval and communication of financial performance standards. | Finalize the approval and communication of financial performance standards. | Same |
| 5 | Develop procedures and report performance metrics on DFC's portfolio and development impact on a country-by-country basis. | Develop procedures to report performance metrics including development impact on a country-by-country basis. | Changed |
| 6 | Develop procedures to complete the BUILD Act Annual Report in a timely manner based on the expectations of DFC's congressional stakeholders. | Ensure the BUILD Act Annual Report is completed and submitted in a timely manner based on the expectations of DFC's congressional stakeholders. | Changed |

Though DFC changed the language for five of six recommendations, RMA believes the changes do not affect the substance of the original recommendations.

Appendix I: Methodology

RMA implemented a scorecard to assess DFC’s compliance for each BUILD Act section and subsection. The section scorecard identifies the number of subsections within the section, as well as the number of subsections identified as KAOIs. Additionally, the section and subsection scorecard states whether the status is fully implemented, not fully implemented, or implemented differently than legislated.

RMA also assessed DFC’s actions to implement the provisions of the BUILD Act by 1) obtaining existing information that documents DFC’s implementation efforts; 2) reviewing DFC’s project data portfolio used in developing the Annual Report; and 3) conducting a walkthrough with DFC personnel responsible for addressing specific legislative requirements.

RMA conducted this performance audit in accordance with standards relevant to performance audits within the *Generally Accepted Government Auditing Standards (GAGAS)* (2018 Revision Technical Update April 2021) issued by the Comptroller General of the United States (also known as the “[Yellow Book](#)”), and other authoritative guidance, such as:

- [Executive Order \(EO\) 11541](#);
- [31 United States Code \(U.S.C.\) §1111](#);
- [Reorganization Plan No. 2 of 1970](#);
- [OMB Circular A-136](#), *Financial Reporting Requirements*, August 10, 2021;
- OMB Circular A-123, [M-16-17](#), *Management’s Responsibility for Enterprise Risk Management and Internal Control*, July 15, 2016; and
- OMB Memorandum [M-17-26](#), *Reducing Burden or Federal Agencies by Rescinding and Modifying OMB Memoranda*, June 25, 2017.

Appendix II: Scorecards

Section Scorecards

| Section 1411: Statement of Policy | |
|--|---|
| Section Provision(s): <u>1</u> | Assessment Summary: RMA’s assessment of DFC’s documentation of the eight elements of its Statement of Policy determined that DFC complies with Section 1411 of the BUILD Act. Statements are included in the Environmental and Social Policy and Procedures. |
| KAOI(s): <u>1</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1412: Establishment of DFC | |
|--|---|
| Section Provision(s): <u>2</u> | Assessment Summary: RMA’s assessment of the criteria used by DFC to evaluate projects and prioritize support to less developed countries with a low-income or lower-middle-income economy determined that DFC complies with Section 1412 of the BUILD Act. RMA observed that DFC does not have a consistent methodology for calculating, tracking, and reporting investment projects in LICs and LMICs. Additionally, DFC has not fully implemented the policies for restricting support to UMICs as DFC is finalizing these procedures in coordination with the State Department. |
| KAOI(s): <u>2</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1413: Management of Corporation | |
|--|--|
| Section Provision(s): <u>16</u> | Assessment Summary: RMA determined that DFC has complied with all appointment and staffing requirements. However, RMA identified an opportunity for further definition and communication around the role and responsibility of the CDO. |
| KAOI(s): <u>2</u> | |
| <input type="checkbox"/> Fully Implemented | |
| <input checked="" type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1415: Independent Accountability Mechanism | |
|--|---|
| Section Provision(s): <u>1</u> | Assessment Summary: RMA examined the Board of Directors Resolution for DFC’s independent accountability mechanism, which details how the duties of the independent accountability mechanism will be exercised. RMA determined that DFC’s independent accountability mechanism adequately addresses the requirements established under Section 1415 of the BUILD Act. |
| KAOI(s): <u>0</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1421: Authorities Relating to Provision of Support | |
|--|---|
| Section Provision(s): <u>23</u> | Assessment Summary: RMA examined the loans and guarantees issued by DFC in the scope of FY 2020 and FY 2021, which included assessments of equity investments and enterprise funds and determined that DFC has adequately enforced the guidelines and criteria outlined in the BUILD Act. Additionally, RMA reviewed documentation supporting DFC’s coordination efforts with other departments and agencies, as well as the data collected by DFC regarding the involvement of minority-owned and women-owned businesses and observed that DFC maintains sufficient documentation of its outreach activities. |
| KAOI(s): <u>0</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1422: Terms and Conditions | |
|--|---|
| Section Provision(s): 12 | Assessment Summary: RMA’s assessment of DFC’s loan portfolio, as well as the standards and policies for loan disbursement, determined that DFC has met the terms and conditions requirements defined in section 1422 of the BUILD Act. |
| KAOI(s): 0 | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1423: Payment of Losses | |
|--|---|
| Section Provision(s): 5 | Assessment Summary: RMA reviewed DFC’s policies and procedures for determining that holders of loans guaranteed by DFC have suffered a loss, as well as recovering and making payments on any amount of such losses. RMA determined that DFC maintains appropriate procedures regarding payments and limitations for defaults on guaranteed loans as defined in the BUILD Act. |
| KAOI(s): 0 | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1424: Termination | |
|--|---|
| Section Provision(s): 1 | Assessment Summary: RMA reviewed DFC’s policies and procedures regarding the termination of its authorities and observed that DFC is authorized for seven years after the date of the BUILD Act and is subject to reauthorization. |
| KAOI(s): 0 | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1431: Operations | |
|--|--|
| Section Provision(s): 2 | Assessment Summary: RMA obtained an understanding of DFC’s policies and procedures for processing claims settlements and electronic payments and determined that all payments made pursuant to any claims settlement are noted as final and conclusive notwithstanding any other provision of law and DFC employs adequate policies for accepting electronic documents and electronic payments, which are reviewed and filed appropriately. |
| KAOI(s): 0 | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1432: Corporate Powers | |
|--|---|
| Section Provision(s): 4 | Assessment Summary: RMA reviewed documentation supporting DFC’s powers and authorities, which included DFC’s cooperation with the General Services Administration (GSA), hiring process, and “other” powers. RMA determined that the corporate powers exercised by DFC align with those established in the BUILD Act as DFC reports all real property information to the GSA, includes Personal Service Contract appointments in its hiring policies, and adequately documents its “other” powers in the Bylaws. |
| KAOI(s): 0 | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1433: Maximum Contingent Liability | |
|--|--|
| Section Provision(s): 1 | Assessment Summary: RMA’s assessment of DFC’s portfolio report determined that DFC’s maximum contingent liability does not exceed the aggregate \$60 billion at any point in time as mandated in the BUILD Act. |
| KAOI(s): 0 | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1434: Corporate Funds | |
|--|--|
| Section Provision(s): <u>9</u> | Assessment Summary: RMA reviewed DFC's procedures for managing transactions affecting the Corporate Capital Account, including any balances transferred from predecessor agencies, as well as transactions with the U.S. Treasury, and determined that DFC is compliant with the requirements regarding the Corporate Capital Account established in the BUILD Act. |
| KAOI(s): <u>0</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1441: Establishment of Risk and Audit Committees | |
|--|--|
| Section Provision(s): <u>8</u> | Assessment Summary: RMA's assessment of DFC's Risk and Audit Committees' oversight responsibilities, policies for risk management, risk profiles, and systems of internal controls determined that the Risk and Audit Committees have adequately assumed the duties and responsibilities outlined in the BUILD Act. |
| KAOI(s): <u>0</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1442: Performance Measures, Evaluation, and Learning | |
|---|--|
| Section Provision(s): <u>3</u> | Assessment Summary: RMA examined DFC's IQ performance measurement framework used in evaluating and assessing expected and ongoing impact for DFC supported projects. RMA determined that the IQ framework has been implemented but that DFC has not finalized and communicated its financial performance standards as required by subsection 1442(b)(3). Further, because DFC has not yet been in operation long enough for sufficient development impact data from DFC-supported projects to be obtained, DFC has not published performance metrics on a country-by-country basis as required by subsection 1442(c). |
| KAOI(s): <u>3</u> | |
| <input type="checkbox"/> Fully Implemented | |
| <input checked="" type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1443: Annual Report | |
|--|--|
| Section Provision(s): <u>2</u> | Assessment Summary: RMA assessed DFC's Annual Report submitted to the appropriate congressional committees over its operations during each fiscal year and determined that DFC maintains sufficient documentation of project assessments and analyses as mandated in the BUILD Act. While compliant with the BUILD Act, we did make an observation regarding the timeliness of the Annual Report. |
| KAOI(s): <u>2</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1444: Publicly Available Project Information | |
|--|--|
| Section Provision(s): <u>2</u> | Assessment Summary: RMA examined DFC's web page dedicated to the disclosure of supported project information and determined that DFC maintains an up-to-date online database that incorporates the description requirements outlined in the BUILD Act and provides a clear link to information about each project supported by DFC. |
| KAOI(s): <u>0</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1445: Engagement with Investors | |
|--|---|
| Section Provision(s): <u>3</u> | Assessment Summary: RMA examined the policies and procedures, as well as the mechanisms employed at DFC to support its cooperation with USAID and other agencies and determined that DFC has developed a strategic relationship with USAID and adequately addressed the BUILD Act requirements for implementing the tools necessary to support such relationships. |
| KAOI(s): <u>3</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1446: Notifications to be Provided by the Corporation | |
|--|---|
| Section Provision(s): <u>3</u> | Assessment Summary: RMA reviewed DFC's documentation regarding the issuance of Congressional Notifications for provisions of support greater than \$10 million and determined that all appropriate congressional committees have been notified in a timely manner. |
| KAOI(s): <u>2</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1451: Limitations and Preferences | |
|--|--|
| Section Provision(s): <u>11</u> | Assessment Summary: RMA's review of DFC's policies for awarding preferential consideration to underrepresented groups and avoiding projects likely to have significant environmental and social impact demonstrates that DFC maintains adequate standards for distinguishing projects eligible for support. |
| KAOI(s): <u>1</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1452: Additionality and Avoidance of Market Distortion | |
|---|--|
| Section Provision(s): <u>2</u> | Assessment Summary: RMA examined the safeguards, policies, and guidelines developed by DFC to encourage private sector support. RMA determined that DFC retains sufficient documentation that private-sector entities are afforded an opportunity to support the project, the projects supplements, but does not compete with private sector support, operates according to internationally recognized best practices and standards, and does not have a significant adverse impact on U.S. employment. |
| KAOI(s): <u>0</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1453: Prohibition on Support in Countries that Support Terrorism or Violate Human Rights and with Sanctioned Persons | |
|---|--|
| Section Provision(s): <u>2</u> | Assessment Summary: RMA's assessment of DFC's policies and procedures for conducting due diligence analyses on proposed projects determined that DFC does have policies and procedures in place to verify that the list of supported projects does not include countries or individuals that are prohibited, how often such policies are reviewed and updated, as well as how DFC confirms for each project that any person or entity owned and controlled by the person receiving support follows all U.S. sanctions laws and regulations. |
| KAOI(s): <u>0</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1462: Reorganization Plan | |
|--|--|
| Section Provision(s): <u>1</u> | Assessment Summary: RMA examined DFC's Reorganization Plan, which outlined the agencies, personnel, assets, and obligations to be transferred from predecessor agencies, and determined that the Reorganization Plan has been transmitted to appropriate congressional committees and includes all elements specified in the BUILD Act. |
| KAOI(s): <u>0</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1463: Transfer of Functions | |
|--|--|
| Section Provision(s): <u>2</u> | Assessment Summary: RMA examined documentation supporting the transfer of functions, personnel, assets, and liabilities from predecessor agencies of DFC and observed sufficient indication of the transfer of elements in the DFC Reorganization Plan. |
| KAOI(s): <u>0</u> | |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented | |
| <input type="checkbox"/> Implemented Differently than Legislated | |

| Section 1466: Savings Provisions | | |
|--|----------|---|
| Section Provision(s): | 2 | Assessment Summary: RMA’s assessment of documentation outlining the functions and administrative actions that will remain in place from the predecessor agencies, as well as any legal issues that predecessor agencies were accountable for, determined that DFC has adequately assumed the functions and legal issues from its predecessor agencies. |
| KAOI(s): | 0 | |
| <input checked="" type="checkbox"/> Fully Implemented | | |
| <input type="checkbox"/> Not Fully Implemented | | |
| <input type="checkbox"/> Implemented Differently than Legislated | | |

Key Areas of Interest Subsection Scorecards

| Subsection 1411: Statement of Policy | | |
|--|--|---|
| <input checked="" type="checkbox"/> KAOI | | Requirement: Specifies eight policies of the United States in support of facilitating market-based private sector development and inclusive economic growth in less developed countries through the provision of credit, capital, and other financial support. |
| <input checked="" type="checkbox"/> Fully Implemented | | |
| <input type="checkbox"/> Not Fully Implemented | | |
| <input type="checkbox"/> Implemented Differently than Legislated | | |
| <input type="checkbox"/> OIG Observation | | Assessment: RMA’s assessment of DFC’s documentation of the eight elements of its Statement of Policy determined that DFC complies with Section 1411 of the BUILD Act. Statements are included in the Environmental and Social Policy and Procedures. |
| <input type="checkbox"/> Recommendation | | |

| Subsection 1412(b): Criteria to Evaluate Economic and Financial Soundness of Supported Projects | | |
|---|--|--|
| <input checked="" type="checkbox"/> KAOI | | Requirement: Specifies that the purpose of DFC is to mobilize and facilitate the participation of private sector capital and skills in the economic development of less developed countries. In carrying out its purpose, DFC uses broad criteria that considers the economic and financial soundness and development objectives of projects for which it provides support in its financing operations. |
| <input checked="" type="checkbox"/> Fully Implemented | | |
| <input type="checkbox"/> Not Fully Implemented | | |
| <input type="checkbox"/> Implemented Differently than Legislated | | |
| <input checked="" type="checkbox"/> OIG Observation | | Assessment: RMA reviewed the IQ User Guidance used by DFC to assess the performance of supported projects by measuring project impacts, monitoring progress toward achieving those impacts, and evaluating the effectiveness of projects. The IQ framework measures four types of project impacts, including 1) ancillary, 2) relevant, 3) core and ancillary, and 4) negative. RMA’s assessment of the IQ User Guidance determined that DFC’s criteria for mobilizing and facilitating the economic development of less developed countries align with the purpose envisioned for section 1412(b) of the BUILD Act. However, RMA noted that while the IQ system is a sufficient measurement tool for predicting project impacts, it is only applicable for new projects initiated after the announcement of the IQ system on June 25, 2020, none of which have been fully concluded. |
| <input type="checkbox"/> Recommendation | | |

| Subsection 1412(c): Criteria to Prioritize and Restrict Provision of Support | | |
|---|---|--|
| <input checked="" type="checkbox"/> | KAOI | Requirement: Prioritize the provision of support in less developed countries with a low-income economy or a lower-middle-income economy and restrict the provision of support in less developed countries with an upper-middle-income economy unless the President certifies to the appropriate congressional committees that such support furthers the national economic or foreign policy interests of the United States and such support is designed to produce significant developmental outcomes or provide developmental benefits to the poorest population of that country. |
| <input checked="" type="checkbox"/> | Fully Implemented | |
| <input type="checkbox"/> | Not Fully Implemented | |
| <input type="checkbox"/> | Implemented Differently than Legislated | |
| <i>DFC Office Owner:</i> | | Assessment: RMA examined documentation demonstrating DFC's prioritization of support to LICs and LMICs and restriction of support to UMICs and observed that DFC assigns greater weight to proposed projects in LICs and LMICs during the due diligence phase, which is reflected in the project eligibility criteria and the IQ scoring methodology. In the Roadmap for Impact, DFC established an internal target of 60 percent for LICs, LMICs, and fragile states, i.e., 60 percent of the private sector projects it commits will be in LICs, LMICs, and fragile states. Our analysis of DFC's FY 2020 and FY 2021 portfolio data found that DFC met the 60% performance target in FY 2021. However, DFC currently does not have a consistent methodology to categorize income levels for projects present in multiple countries, or track and report their progress throughout the year on meeting internal goals for support to LICs and LMICs. Additionally, DFC's process for investing in UMICs is currently being finalized with Congressional stakeholders. |
| Financial Policy | | |
| <i>Completion Date:</i> | | |
| <input checked="" type="checkbox"/> | OIG Observation | |
| <input type="checkbox"/> | Recommendation | |

| Subsection 1413(f)(2): Duties of the Chief Risk Officer | | |
|--|---|--|
| <input checked="" type="checkbox"/> | KAOI | Requirement: Mandates that the DFC's CRO, in coordination with the audit committee of the Board of Directors, develop, implement, and manage a comprehensive process for identifying, assessing, monitoring, and limiting risks to DFC. |
| <input checked="" type="checkbox"/> | Fully Implemented | |
| <input type="checkbox"/> | Not Fully Implemented | |
| <input type="checkbox"/> | Implemented Differently than Legislated | |
| <input checked="" type="checkbox"/> | OIG Observation | Assessment: RMA's assessment of the Charter for DFC's Senior Management Council (SMC) observed that the CRO leads the SMC in making recommendations to DFC's CEO and the Audit and Risk Committees on risk management, financial management, and internal control matters. Further, the SMC is responsible for the oversight of DFC's internal control frameworks, including controls and processes to ensure compliance with financial management statutes and regulations. DFC's risk profile is also reviewed by the SMC and the board Risk Committee. The SMC also conducts regular assessments of risk appetite and tolerance levels. While DFC is compliant with the provisions of the BUILD Act related to the CRO, there is still some confusion as to the specific roles and duties of the CRO and CDO positions. Therefore, DFC will benefit from the Board of Directors further defining the roles, responsibilities, and authorities of both positions. |
| <input type="checkbox"/> | Recommendation | |

| Subsection 1413(g)(2): Duties of the Chief Development Officer | | |
|---|---|--|
| <input checked="" type="checkbox"/> | KAOI | Requirement: Specifies six responsibilities to be assumed by the DFC CDO. |
| <input type="checkbox"/> | Fully Implemented | |
| <input checked="" type="checkbox"/> | Not Fully Implemented | |
| <input type="checkbox"/> | Implemented Differently than Legislated | |

| Subsection 1413(g)(2): Duties of the Chief Development Officer | |
|---|---|
| <p><i>DFC Office Owner:</i></p> <p>Office of the Chief Executive</p> | <p>Assessment: RMA determined that the CDO has taken steps to fulfill the mandated duties except for the duty outlined in subsection 1412(g)(2)(B). Subsection 1412(g)(2)(B) states that under the guidance of the CEO, the CDO shall manage employees dedicated to structuring, monitoring, and evaluating transactions and projects co-designed with USAID and other relevant U.S. Government departments and agencies. However, these employees (the MTU) report to the ODC. However, during the course of our audit, the CDO signed a delegation of authority that, in part, delegates the management of MTU to ODC.</p> |
| <p><i>Completion Date:</i></p> | |
| <p><input checked="" type="checkbox"/> OIG Observation</p> <p><input type="checkbox"/> Recommendation</p> | |

| Subsection 1442(c): Implementation of the Performance Measurement System | |
|--|--|
| <p><input checked="" type="checkbox"/> KAOI</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Not Fully Implemented</p> <p><input type="checkbox"/> Implemented Differently than Legislated</p> | <p>Requirement:</p> <p>(c) Make available to the public on a regular basis information on performance metrics on a country-by-country basis. In addition to its Annual Report, DFC maintains a web page dedicated to the disclosure of projects supported by DFC, which includes the Active Projects database that reflects all active DFC commitments as of the most recent quarter. Each project in the database is accompanied by a Public Information Summary that consists of the project description, developmental objectives, and the results of any due diligence assessments.</p> |
| <p><i>DFC Office Owner:</i></p> <p>Office of Financial and Portfolio Management and Office of Development Policy</p> | |
| <p><i>Completion Date:</i></p> | <p>Assessment: RMA reviewed documentation used by DFC to obtain relevant project data, including the IQ User Guidance, Impact Assessment Questionnaire (Survey Form DFC-007), and Development Outcome Survey (Form DFC-008). RMA observed that the IQ framework is designed to measure and assess projects before and after DFC support to identify: a) intended and actual impacts; b) who experiences the impact; and c) the significance of the impact to the host country. Survey Form DFC-007 is used to collect the data for an initial review of potential projects. For existing and ongoing projects, DFC conducts an annual assessment using Form DFC-008.</p> <p>DFC is finalizing certain financial performance metrics but does not fully satisfy the subsection 1442(c) requirement to make available to the public on a regular basis information about the support provided by DFC and the performance metrics about such support on a country-by-country basis. Although DFC maintains a public database that includes the Public Information Summary of DFC's review of each project's developmental objectives and environmental and social assessments, DFC has not published information regarding performance metrics for multi-country projects by country. As previously noted, DFC does not have a consistent methodology for calculating, tracking, and reporting progress for investment projects in LICs and LMICs. Approximately 15% of the projects support multiple countries and will need metrics defined to address development impact on a country-by-country basis.</p> |
| <p><input checked="" type="checkbox"/> OIG Observation</p> | |
| <p><input type="checkbox"/> Recommendation</p> | |

| Subsection 1442(b): Considerations Included in the Performance Measurement System | |
|--|---|
| <p><input checked="" type="checkbox"/> KAOI</p> <p><input checked="" type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Not Fully Implemented</p> <p><input type="checkbox"/> Implemented Differently than Legislated</p> | <p>Requirement: Develop: (1) a successor for the development impact measurement system of the Overseas Private Investment Corporation; (2) a mechanism for ensuring that support provided by DFC is in addition to private investment; and (3) standards for, and a method for ensuring, appropriate financial and development performance of DFC's portfolio.</p> |
| <p><input type="checkbox"/> OIG Observation</p> | |

| Subsection 1442(b): Considerations Included in the Performance Measurement System | |
|--|---|
| <input type="checkbox"/> Recommendation | Assessment: RMA’s assessment of the User Guidance for DFC’s IQ performance measurement system determined that the IQ framework includes policies that: 1) examine private capital mobilization; 2) evaluate the financial performance of projects in DFC’s portfolio; and 3) score projects based its development performance. An analysis of the effects of supported projects is then documented in the annual report. |

| Subsection 1442(d): Consultation with the Development Advisory Council | |
|--|---|
| <input checked="" type="checkbox"/> KAOI | Requirement: Consult with the Development Advisory Council and other stakeholders and interested parties engaged in sustainable economic growth and development in developing the performance measurement system. |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented <input type="checkbox"/> Implemented Differently than Legislated | |
| <input type="checkbox"/> OIG Observation | Assessment: RMA’s review of the User Guidance for DFC’s IQ performance measurement system found that the ex-post monitoring process is referred to as the LabIQ, which involves ongoing and systematic tracking of data and information related to policies, strategies, programs, projects, and activities and is used to determine whether desired results are occurring as expected during program, project, or activity implementation. The lessons learned pertaining to DFC’s metrics, IQ project scoring thresholds and methodology, and monitoring and evaluation processes will be communicated to the Director of Development Impact, the CDO, the Development Advisory Committee, and interagency partners in quarterly meetings and in written reports. Revisions were made accordingly during the IQ’s pilot year (FY 2020) and will be made every three (3) years thereafter in consultation with the CDO, the Development Advisory Council, and other select DFC stakeholders to incorporate new best practices and implement recommendations from evaluations. |
| <input type="checkbox"/> Recommendation | |

| Subsection 1443(a): Inclusion of Assessment Requirements in Annual Report | |
|--|--|
| <input checked="" type="checkbox"/> KAOI | Requirement: Submit to the appropriate congressional committees a complete and detailed report of its operations during each fiscal year, including an assessment of: 1) the economic and social development impact; 2) the extent to which DFC operations complement or are compatible with the development assistance programs of the United States; 3) the institutional linkages with other government department and agencies; and 4) compliance of projects with human rights, environmental, labor, and social policies, or other such related policies. |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented <input type="checkbox"/> Implemented Differently than Legislated | |
| <input checked="" type="checkbox"/> OIG Observation | Assessment: RMA’s review of DFC’s 2020 Annual Report found that DFC has included: 1) assessments of economic and social development impact documented by the IQ performance measurement tool; 2) descriptions of any complementary development operations; 3) a list of activities to promote interagency cooperation; and 4) disclosure of any projects found to be out of compliance with human rights, environmental, labor, and social policies, or other such related policies. We did make an observation regarding the timeliness of the Annual Report. |
| <input type="checkbox"/> Recommendation | |

| Subsection 1443(b): Inclusion of Analyses of Effects in Annual Report | | |
|--|---|---|
| <input checked="" type="checkbox"/> | KAOI | Requirement: Requires each annual report submitted by DFC to include analyses of the effects of projects supported by DFC, including: 1) the desired development outcomes for projects and the effect of DFC’s support on access to capital and ways in which DFC is addressing identifiable market gaps; 2) an explanation of any partnership arrangement with a qualifying sovereign entity in support of each project; 3) projections of development outcomes and the value of private-sector assets brought to bear relative to the amount of DFC support; and 4) an assessment of the extent to which lessons learned from the monitoring and evaluation activities of DFC, and from annual reports from previous years compiled by DFC, have been applied to projects. |
| <input checked="" type="checkbox"/> | Fully Implemented | |
| <input type="checkbox"/> | Not Fully Implemented | |
| <input type="checkbox"/> | Implemented Differently than Legislated | |
| <input type="checkbox"/> | OIG Observation | Assessment: RMA’s review of DFC’s 2020 Annual Report found that DFC has included: 1) a table defining the projected impact and assessing the actual impact for 15 metrics and disclosing the effect of DFC’s support on access to capital for specific regions; 2) a breakdown of nine partnership arrangements with qualifying sovereign entities; 3) the value of public and private sector assets relative to the amount of support provided by DFC; and 4) a compilation of monitoring and evaluation activities performed by DFC in FY 2020. |
| <input type="checkbox"/> | Recommendation | |

| Subsection 1445(a): Engaging with Investors | | |
|--|---|---|
| <input checked="" type="checkbox"/> | KAOI | Requirement: Requires that the DFC CDO, in cooperation with the Administrator of the USAID: 1) develop a strategic relationship with private sector entities; 2) engage such entities and reduce business risks primarily through direct transaction support and facilitating investment partnerships; 3) develop and support tools, approaches, and intermediaries that can mobilize private finance in the developing world; 4) pursue highly developmental projects of all sizes, especially those that are small but designed for work in the most underdeveloped areas; and 5) pursue projects consistent with the policy of the United States and the Joint Strategic Plan and the Mission Country Development Cooperation Strategies of USAID. |
| <input checked="" type="checkbox"/> | Fully Implemented | |
| <input type="checkbox"/> | Not Fully Implemented | |
| <input type="checkbox"/> | Implemented Differently than Legislated | |
| <input type="checkbox"/> | OIG Observation | Assessment: RMA determined that DFC meets these requirements by: <ol style="list-style-type: none"> 1. Working with global communities in such initiatives as vaccines and energy access; 2. Soliciting calls for applications for the Global Health and Prosperity Initiative, distributed renewable energy, and climate funds; 3. Conducting town hall meetings regarding LICs and LMIC to try to identify new clients and business opportunities; and 4. Organizing with regional policy leads and MTU quarterly briefings for USAID’s regional leadership on DFC’s pipeline and important issues. <p>DFC management stated that reviewing USAID’s Country Development Cooperation Strategies (CDCS) and consulting with relevant USAID operating units should be formalized in all investment paper templates in which the MTU facilitates the review process.</p> |
| <input type="checkbox"/> | Recommendation | |

| Subsection 1445(b): Activities in Support of Engaging with Investors | | |
|---|---|--|
| <input checked="" type="checkbox"/> | KAOI | Requirement: Complete ten activities in support of achieving the goals pertaining to engaging with investors. These activities include the development of risk mitigation tools; providing transaction structuring support; supporting intermediaries linking capital supply and demand; coordinating with other Federal agencies to support transactions; facilitating discussions between financial, donor, civil society, and public sector partners about opportunities for private finance within development priorities; offering strategic planning and programming assistance; delivering training and knowledge management tools; partnering with private sector entities that provide access to capital and expertise; and identifying and screening new investment partners. |
| <input checked="" type="checkbox"/> | Fully Implemented | |
| <input type="checkbox"/> | Not Fully Implemented | |
| <input type="checkbox"/> | Implemented Differently than Legislated | |
| <input type="checkbox"/> | OIG Observation | Assessment: RMA determined that DFC has sufficiently pursued initiatives in addressing the mandated requirements. DFC management recommended that DFC should establish an Upstream Project Development Team within the CDO office to provide longer term transaction structuring support as part of the CDO's Blue Sky staffing request. |
| <input type="checkbox"/> | Recommendation | |

| Subsection 1445(c): Coordination to Support Technical Assistance Projects | | |
|--|---|---|
| <input checked="" type="checkbox"/> | KAOI | Requirement: Coordinate with USAID and other agencies and departments on projects and programs supported by DFC that include technical assistance. |
| <input checked="" type="checkbox"/> | Fully Implemented | |
| <input type="checkbox"/> | Not Fully Implemented | |
| <input type="checkbox"/> | Implemented Differently than Legislated | |
| <input type="checkbox"/> | OIG Observation | Assessment: DFC management referenced DFC's work with Global Communities, Small Enterprise Assistance Funds (SEAF), Root Capital, Mastercard, as well as initiatives in COVID-19 vaccines and energy access. Further, DFC management noted that to enhance its efforts, DFC and USAID should develop a series of joint strategies by sectors with common high-level metrics that will include grants and/or technical support from USAID and financing or investment from DFC. |
| <input type="checkbox"/> | Recommendation | |

| Subsection 1446(a): Notifications to be Provided by DFC | | |
|--|---|--|
| <input checked="" type="checkbox"/> | KAOI | Requirement: Submit a report to the appropriate congressional committees no later than 15 days before DFC makes a financial commitment in an amount greater than \$10,000,000. |
| <input checked="" type="checkbox"/> | Fully Implemented | |
| <input type="checkbox"/> | Not Fully Implemented | |
| <input type="checkbox"/> | Implemented Differently than Legislated | |
| <input type="checkbox"/> | OIG Observation | Assessment: RMA reviewed a sample of ten DFC-supported projects with commitment amounts greater than \$10,000,000 and determined that DFC has submitted a Congressional Notification to Congress at least 15 days prior to the financial commitment for all projects in the sample. |
| <input type="checkbox"/> | Recommendation | |

| Subsection 1446(b): Information Requirements of Reports to Congressional Committees | | |
|--|-----------------------|--|
| <input checked="" type="checkbox"/> | KAOI | Requirement: Submit a report to appropriate congressional committees for financial commitments greater than \$10,000,000 that includes: (1) the amount of each financial commitment; (2) an identification of the recipient or beneficiary; and (3) a description |
| <input checked="" type="checkbox"/> | Fully Implemented | |
| <input type="checkbox"/> | Not Fully Implemented | |

| Subsection 1446(b): Information Requirements of Reports to Congressional Committees | |
|--|--|
| <input type="checkbox"/> Implemented Differently than Legislated | of the project, activity, or asset and the development goal or purpose to be achieved by DFC providing support. |
| <input type="checkbox"/> OIG Observation | Assessment: RMA reviewed a sample of ten Congressional Notifications for DFC-supported projects with commitment amounts greater than \$10,000,000 and observed that each Congressional Notification included the commitment amount, identification of the recipient or beneficiary, and a summary of the project description and purpose. |
| <input type="checkbox"/> Recommendation | |

| Subsection 1451(i): Ensuring Opportunities for Small Businesses in Foreign Development | |
|--|---|
| <input checked="" type="checkbox"/> KAOI | Requirement: Make efforts to: (1) give preferential consideration in providing support to projects sponsored by or involving small businesses; and (2) ensure that the proportion of projects sponsored by or involving U.S. small businesses, including women-, minority-, and veteran-owned small businesses, is not less than 50 percent of all projects for which DFC provides support and that involve U.S. persons. The Roadmap for Impact report discusses DFC's inaugural development strategy for observing projects that are given preferential consideration, outlining six (6) development sectors that align with U.S. development and foreign policy, DFC's mission and financing capabilities, and global efforts to address the short- and long-term socio-economic impacts of unprecedented shocks that will be prioritized by DFC. |
| <input checked="" type="checkbox"/> Fully Implemented | |
| <input type="checkbox"/> Not Fully Implemented <input type="checkbox"/> Implemented Differently than Legislated | |
| <input type="checkbox"/> OIG Observation | Assessment: RMA determined that financial inclusion is included in the list of development sectors, of which DFC provides sustainable financial services and credit to women, small businesses, and other underserved groups to increase economic participation and prosperity within communities. Additionally, RMA examined DFC's data regarding its Finance Projects to validate that the proportion of projects sponsored by or involving U.S. small businesses is not less than 50 percent of all projects. In the scope of FY 2020 to FY 2021, a total of 164 projects were initiated. Of the 164 projects, 73 did not involve U.S. small businesses. Therefore, 55.5% of DFC projects from FY 2020 to FY 2021 are sponsored by or involve U.S. small businesses. |
| <input type="checkbox"/> Recommendation | |

Appendix III: Impediments to Fulfilling BUILD Act Mandates | Management Response

“DFC management appreciates the opportunity to share with the Inspector General's team some of the impediments to efficiently fulfilling our mission under the BUILD Act.¹⁴ We have highlighted areas where either statutorily required process issues or governance issues result in unnecessary inefficiencies or make DFC a less attractive partner to the private sector.

CN process is unfamiliar to the private market and limits their interest in subjecting themselves to our transaction flow

DFC is required to submit congressional notifications ("CNs") for a) every supported transaction over \$10M and b) every project supported in a list of 30 countries. When briefed on this matter, private sector partners often worry that this requirement poses substantial risk. The provision makes our potential support of private sector investments unpredictable for reasons outside of the control of our private sector counterparties to the point that they sometimes cannot afford (or do not want to deal with) the risk of working with DFC, especially for equity investments, given their timelines. Congress has a legitimate oversight responsibility to which DFC is committed to being fully responsive, and DFC management is working with Congressional stakeholders to refine protocol around CN procedures to maximize the efficiency of this process.

Strategic competitors often move faster than DFC can because they work without integrity or ESG standards

The DFC will always be "values-based" and, as such, hold counterparties to higher standards than strategic competitors. This fundamental approach differentiates the United States as a values-driven investor partner that holds private sector counterparties accountable to extremely high standards for integrity and ESG compliance. Consequently, this means that DFC cannot move as quickly as strategic competitors. DFC subject clients to substantial due diligence that, while thorough, run counter to the low / lack of standards employed by our strategic competitors. Competitor states present a unique challenge to DFC compliance practices by engaged in predatory lending that move quickly, and without similar anti-corruption and ESG standards. The standards and values of DFC not only support meaningful transactions for development but support the building of transparent and resilient investment markets in the countries where we work.

Loss of working capital limits our ability to self-sustain a scale-up and to have private sector partners burden share.

Previously, working capital authority allowed OPIC to collect fees from private sector parties seeking support and to use them for a) due diligence costs, b) workout expenses, and c) monitoring expenses. The presence of working capital offered several key benefits. First, fee collection and spending authority would allow the agency to scale commensurate with potential business and

¹⁴ August 5, 2022, email from DFC Subject Line: Impediments to Fulfilling BUILD Act Mandates: Management Response.

actual liabilities. Second, this authority would align us more with private sector project finance from a burden-sharing perspective. Any entity seeking support (private sector) will bear the upfront cost of due diligence and the risk of loss if the project does not proceed (currently, DFC and the U.S. taxpayer pay that cost). Third, payment of upfront fees deters fraud and indicates commercial viability. Finally, this authority could offer DFC greater budgetary certainty, allowing us to handle unpredictable workout expenses without potentially triggering a trade-off between workout expenses and administrative overhead of the agency.

Relying on World Bank country income classifications to prioritize DFC support can lead to our missing opportunities to make development impact

We embrace the BUILD Act's mandates related to DFC's development effectiveness, particularly those that led to the development of a world-class impact management tool, the Impact Quotient (IQ), which measures both project design and results over time. The reliance on World Bank country income classifications is not the right way to categorize DFC support in order to maximize development impact. To our knowledge, country income classifications are not used by any other DFIs, including the World Bank itself, to determine eligibility for support. The UMIC certification requirement has created more bureaucratic process for highly developmental projects in UMICs without resulting in more effective deployment of support in LICs / LMICs – it simply delays capital deployment and development impact in countries with great need for DFC's private sector tools that our strategic competitors are targeting. It also limits DFC's ability to scale its investment funds portfolio – using our new equity authority under BUILD – as most funds invest across several countries that span income ranges. Relying on World Bank country income classifications has already led to complex investment "carve-outs," making it challenging to work with DFC and for DFC to develop responsive pipelines of projects to support.

The lack of PV¹⁵ equity substantially limits the scale-up of our equity program without a compelling accounting rationale

The BUILD Act gave DFC the ability to make equity investments. Providing DFC with this product was crucial to ensuring DFC could function as a top-tier DFI. However, current budget treatment for equity investments hinders the program by not considering any likely returns on equity investments at all. Treating equity investments in the same manner as grants for budgeting purposes does not make sense given the past performance of DFC's work with funds and the reasonable expectations of returns for DFC's current program. Congressional staff knew this was a problem when Congress passed the BUILD Act. However, they could not find common ground to allow equity's likely returns on investment to be considered. Without a change to the budgetary treatment of equity, DFC remains unable to make the larger impact equity investments – particularly in infrastructure – contemplated under BUILD.”

¹⁵ DFC OIG footnote: PV is Present Value. GAO provides the following definition of Present Value: [GAO PV definition](#)

Appendix IV: Glossary of Acronyms and Abbreviations

Table 7 contains definitions of all acronyms and abbreviations used in this report.

Table 7: Acronyms and Abbreviations

| Acronym | Definition |
|-----------|--|
| BUILD Act | Better Utilization of Investments Leading to Development Act of 2018 |
| CDO | Chief Development Officer |
| CDCS | Country Development Cooperation Strategy |
| CEO | Chief Executive Officer |
| CRO | Chief Risk Officer |
| DCA | Development Credit Authority |
| DFC | U.S. International Development Finance Corporation |
| EO | Executive Order |
| FY | Fiscal Year |
| GAGAS | Generally Accepted Government Auditing Standards |
| GSA | General Services Administration |
| HIC | High Income Country |
| IG | Inspector General |
| IQ | Impact Quotient |
| LIC | Lower-Income Country |
| KAOI | Key Area of Interest |
| LMIC | Lower-Middle-Income Country |
| MCC | Millennium Challenge Corporation |
| MTU | Mission Transactions Unit |
| ODC | Office of Development Credit |
| OFPM | Office of Financial & Portfolio Management |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| OPIC | Overseas Private Investment Corporation |
| RMA | RMA Associates, LLC |
| SEAF | Small Enterprise Assistance Funds |
| SMC | Senior Management Council |
| UMIC | Upper-Middle-Income Country |
| USAID | U.S. Agency for International Development |
| U.S.C. | United States Code |

Appendix V: List of Contributors

Darrell E. Benjamin, Jr., Assistant Inspector General for Audit

Erika Ersland, Auditor

Sarah Jeong, Intern

RMA Associates, LLC

Appendix VI: Management Comments



September 19, 2022

MEMORANDUM

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

FROM: Scott Nathan
Chief Executive Officer

Scott Nathan

Digitally signed by Scott
Nathan
Date: 2022.09.19
15:30:15 -04'00'

SUBJECT: DFC's Management Comments to "DFC Made Significant Progress Implementing Provisions of the Better Utilization of Investments Leading to Development Act"

The U.S. International Development Finance Corporation (DFC) response to the recommendations made by the DFC Office of Inspector General (OIG) in the draft report titled *DFC Made Significant Progress Implementing Provisions of the Better Utilization of Investments Leading to Development Act* is provided below.

Implementing the BUILD Act and creating DFC from two legacy agencies was a significant undertaking and required enormous collaboration with the agency's Congressional, interagency, and public stakeholders, both in advance of and since the enactment of DFC's first appropriation in December 2019. In this report, the OIG opined that DFC fully implemented 116 of 118, or 98%, of the statute. DFC management is proud of what this audit has made clear: that DFC has fully implemented almost every BUILD Act provision - 98% based on this analysis -- and has done so in a short amount of time. Management believes that these conclusions are undervalued in the characterization of 98% as significant progress. Nonetheless, we appreciate and concur with the conclusion reached that DFC has fully implemented nearly every section of the BUILD Act.

In light of the discussion in the report of how DFC prioritizes support in LICs and LMICs, DFC management notes that the relevant provisions of the BUILD Act are fully implemented via the concrete measures it takes to carry out the required prioritization. Strategic portfolio targets are just one of many ways to incentivize management and project teams with respect to priorities and to evaluate the results of DFC's prioritization activities and tools. It would be counterproductive to disincentivize ambitious strategic targets by linking them to legal compliance determinations.

The OIG provided DFC with six recommendations and DFC's response to each of those recommendations is provided below:

OIG Recommendation No. 1: Define the roles, responsibilities, and authorities of the CDO and CRO.

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dfc.gov



Management Response: DFC concurs that a review of the roles, responsibilities and authorities in consultation with the Board is a worthwhile undertaking considering the importance of these offices within the organization.

Responsible Party: Office of the Chief Executive Officer in conjunction with the Board of Directors

Target Resolution Date: 2nd Quarter FY 2023

OIG Recommendation No. 2: Develop and communicate a clear methodology for categorizing income level classifications for projects operating in multiple countries in internal accounting and reporting systems and ensure a consistent methodology is used to track progress towards the LIC/LMIC project goal throughout the year and at fiscal year-end.

Management Response: DFC concurs with this recommendation to develop a methodology and reporting approach that maintains the continuity of origination records.

Responsible Party: Office of Development Policy

Target Resolution Date: 1st Quarter FY 2023

OIG Recommendation No. 3: Finalize and communicate policies and procedures around the Presidential certification of support to UMICs that furthers the national economic or foreign policy interests of the United States.

Management Response: DFC concurs with this recommendation.

Responsible Party: Office of General Counsel

Target Resolution Date: 1st Quarter FY 2023

OIG Recommendation No. 4: Finalize the approval and communication of financial performance standards.

Management Response: DFC concurs with this recommendation and will continue its ongoing efforts to finalize and communicate the financial performance standards for the agency's portfolio.

Responsible Party: Office of Financial and Portfolio Management

Target Resolution Date: 4th Quarter FY 2023

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dfc.gov



OIG Recommendation No. 5: Develop procedures to report performance metrics including development impact on a country-by-country basis.

Management Response: DFC concurs with this recommendation. In FY 2022, DFC developed procedures to report development impact on a country-by-country basis. In FY 2023, DFC will begin reporting development impact metrics on a country-by-country basis based on the data obtained from Development Outcome Surveys (Form 008) completed by DFC counterparties.

Responsible Party: Office of Development Policy

Target Resolution Date: 1st Quarter FY 2023

OIG Recommendation No. 6: Ensure the BUILD Act Annual Report is completed and submitted in a timely manner based on the expectations of DFC's congressional stakeholders.

Management Response: DFC concurs with this recommendation and has already advised Congressional stakeholders that Annual Report deadline will be the end of February each year.

Responsible Party: Office of External Affairs

Target Resolution Date: 1st Quarter FY 2023

/s/

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