U.S. International Development Finance Corporation

DFC is pleased to announce the completion of an independent assessment of DFC's Portfolio for Impact and Innovation (PI^2) portfolio across the dimensions of financial risk, return, and development impact. DFC's PI^2 program targets investments in small, early-stage businesses -- many operating in highly volatile markets -- with the goal of scaling innovative solutions to global development challenges. These investment decisions require that DFC balance relatively higher financial risks and possibly lower financial returns with the potential for significant development impact.

DFC commissioned Dalberg Advisers (Dalberg) to conduct the assessment. Dalberg evaluated 23 PI^2 projects using DFC's Impact Quotient (IQ) framework to measure each project's development impact results. Dalberg utilized DFC's internal risk assessments and budgetary reserve allocations as indicators of financial risk and calculated each project's Internal Rate of Return (IRR) to measure financial returns. The evaluated portfolio represented about 20 percent of the commitment amount of DFC's total PI^2 portfolio at the time of the analysis and spanned four major sectors—funds, health and agriculture, small business support, and energy—across Africa, Asia, and Latin America.

The evaluation concluded that the assessed PI^2 portfolio has achieved significant developmental impact while earning small, but positive, financial returns, notwithstanding elevated operational and market risk. The risk profile of the projects in the portfolio tended to increase over time due to volatile political environments, unproven business models, the effects of COVID-19, and challenges with fast growth. These risks required DFC to provide the necessary financial support to enable these projects to overcome financial hurdles over the project's life. Even with these risks, over half (57%) of the evaluated portfolio received development IQ ratings of 'Highly Impactful' or 'Exceptionally Impactful', the two highest IQ tiers.

The study also gleaned some important lessons and recommendations that will help inform how DFC can more strategically and effectively use its expertise and financial tools to catalyze capital in high-risk, highly developmental projects. As part of its Agency-wide realignment, DFC is establishing an Office of Catalytic Investments that will build on the successes and lessons learned from the PI^2 program.

This unit will consider several of the recommendations from the Dalberg study in its strategic plan, such as:

- Focusing on investment opportunities that fit the PI^2 profile of innovative, early-stage companies that have high development impact potential.
- Expanding DFC's support for transactions that may be higher risk, but highly catalytic and impactful.
- Developing appropriately tailored screening, investment approval and monitoring processes that cater to the unique needs of these types of companies.

- Creating and scaling flexible financial tools and de-risking mechanisms necessary to catalyze investment and set these companies up for future success.
- Partnering with local intermediaries and funds that have an aligned strategy that are well positioned to identify and support growing companies.
- Developing platforms to better communicate learnings both within DFC and externally.

The sample size of the assessed portfolio was small (representing only about 20 percent of the overall PI² portfolio). As such, DFC is considering several process improvements that were recommended in the study that will enable the Agency to conduct broader assessments of the financial and impact performance of the PI² portfolio as well as other portfolios in the future. Specifically, DFC will be considering:

- Implementing ex-post IQ scoring at the time a project is about to exit DFC's portfolio, including an assessment of the likelihood of sustained positive impacts after exit.
- Leveraging lessons learned from PI² to support higher risk, catalytic transactions across DFC's portfolios.
- Further developing tools and dashboards to enable portfolio-level analysis of financial performance, impact performance, and financial risk.
- Developing tools to better articulate and track financial and non-financial additionality.

DFC Management appreciates the hard work by Dalberg and DFC staff that went into this study. The lessons learned will enable DFC to continue improving its effectiveness in catalyzing capital that results in positive development outcomes.

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