DFC U.S. International Development Finance Corporation

Development Impact Targets: Setting Goals for Sustainable Progress

Introduction

The U.S. International Development Finance Corporation (DFC) mobilizes private sector capital to finance solutions to pressing development challenges, benefitting communities and ecosystems around the world. Since the Corporation's establishment in 2019 through the BUILD Act, DFC has embraced our new impact-focused mandate, built a suite of impact-informed tools to emphasize impact throughout each project's life cycle, and channeled learnings into DFC's strategy development process. Through this effort, we have explored how our impact ambitions should inform how we prioritize our efforts. As part of this strategy review, we identified five priority sectors — food security and agriculture, energy, health, infrastructure and critical minerals, and small business support and financial services — alongside two cross-cutting themes — climate and inclusion — which we emphasize across our portfolio.

Now, with three years of DFC impact data and experience in hand, we are setting development impact targets, in line with the UN Sustainable Development Goals (SDGs), to drive our contributions in each of these priority sectors.

In the context of our portfolio, we aim to outpace the annual rate of change needed to realize the SDGs most aligned to our core sector priorities. This means accelerating the availability of reliable physical infrastructure, expanding access to critical healthcare services, advancing the availability of financing for small businesses, and more. By exceeding the rate of change needed in each area, we can help move the needle and unlock further global development progress. At their core, these emerging impact targets will enable us to:

1. Accelerate progress on the most pressing global development challenges;
2. Demonstrate DFC's contribution to various challenges we are working towards addressing; and
3. Align DFC with the practices of our Development Finance Institution (DFI) peers.

What are impact targets?

When discussing problems as complex and colossal as the global development issues addressed by DFIs like DFC, it is easy to talk in general terms about what success looks like but much harder to determine when that outcome has been achieved. For example, we know we want to reduce poverty, but how will we know that poverty has been reduced *enough* to meaningfully improve people's lives?

Impact targets translate vague concepts of success into measurable quantities that demonstrate when a certain, positive, and sustainable outcome either has occurred or will likely occur. By remaining specific and time-bound, impact targets also demonstrate how effective an organization expects it will be at turning inputs, such as money and time, into specific results within their relevant context. This helps answer critical questions about our success. Are we truly moving the needle? Are we benefitting both society and the planet as we expected? Are we driving sufficient positive change in the markets where we play an active role?

As part of our **updated impact theses**, which detail our impact objectives and theory of change, we believe that setting concrete impact targets will:

1. Articulate the change we aim to achieve to internal and external stakeholders;
2. Prioritize our efforts on the mechanisms most likely to achieve lasting change;
3. Enable objective analysis of our portfolio's performance, contextualized relative to the sector, market, and development impact challenge; and
4. Identify areas for improvement to achieve our impact mandate.

Understanding that DFC projects have yet to reach full maturity, we plan to pilot this approach as we track the progress of our portfolio. Through regular reflection and analysis, we hope to use lessons learned from this process to inform our impact target methodology for DFC.

Development Impact Targets:

An Overview

As we manage our portfolio in line with our critical cross-cutting themes and sector priorities, we will strive to achieve the targets listed below. These align with the UN SDGs, taking into account the rate of pace required for each so that we can contribute to closing global gaps. In the context of DFC clients that collectively benefit millions of underserved stakeholders around the world, these seemingly modest increases, compounding year after year, quickly amount to significant positive impact over time.

Priority sectors & cross-cutting initiatives

Food security and agribusiness

- SDG 1.4: Globally, 930 million rural individuals lack access to financing. To address this gap, DFC seeks to grow the number of smallholder farmers supported through its portfolio by >6.2% annually.
- SDG 2.A: Over the past decade, agricultural financing has grown by 2.2% per year. To accelerate this growth further, DFC seeks to grow the volume of agriculture sector financing provided through its portfolio by >2.2% annually.

Energy

- SDG 7.1: Nearly 750 million individuals lack reliable electricity access. To address this gap, DFC seeks to grow energy access by >1.2% annually through its portfolio.
- SDG 7.2: Across underserved markets, renewable energy comprises only 22% of total energy consumption, indicating need for the production of an additional 166,000EJ of renewable energy to meet a 1.5 degree scenario. To address this gap, DFC seeks to increase production of renewable energy through its portfolio by >4.2% annually.

Health

- SDG 3.8: On average, underserved markets score 41 (out of 100) on key indices of healthcare quality and availability, meaning millions of people have insufficient health services. To address this gap, DFC seeks to grow access to high-quality, affordable essential healthcare services and safe and effective essential medicines and vaccines through its portfolio by >3.0% annually.

Infrastructure and critical minerals

- SDG 9.C: Globally, 3.2 billion people lack reliable internet access. To address this gap, DFC seeks to grow digital connectivity, through its portfolio, by >5.6% annually.
- SDG 9.1: Underserved markets are lagging in the logistics performance index, with an average score of 2.5 out of 5.0. To address these infrastructure challenges, DFC seeks to grow transportation infrastructure through its portfolio by >6.1% annually.
- SDG 6.1: Globally, 1.2 billion people lack access to clean drinking water. To address this gap, DFC seeks to increase the number of connections to water and wastewater services by >6.8% annually.

Small business support and financial services

- SDG 8.3: Around the world, 130 million micro, small, and medium enterprises (MSMEs) lack sufficient access to credit. To address this gap, DFC seeks to expand the number of MSMEs accessing finance through its portfolio by >3.0% annually.
- SDG 1.4: Globally, 2.6 billion adults do not bank with formal financial services. To address this gap, DFC seeks to expand the number of individuals accessing finance by >4.0% annually.

Inclusion

- SDG 5.A: To achieve parity, over 300 million women still need access to financial services. To address this gap, DFC seeks to increase the number of women and women-owned/led businesses accessing finance through its portfolio by >1.2% annually.
- SDG 10.2: Only 34% of low-income individuals have financial services accounts. To address this gap, DFC seeks to increase the number of low-income individuals accessing finance through its portfolio by >4.1% annually.

Climate

- SDG 13: Addressing the climate crisis requires scaling investment in countries bearing the brunt of climate impacts. To address this financing gap, DFC is scaling its climate finance team, supporting a multibillion annual portfolio across sectors, and supporting DFC clients in achieving their respective net zero targets.

Note: Figures reflect available data from third-party sources; not all countries are able to report all indicators.

Setting targets:

Accelerating global development

To guide our impact efforts and embrace our responsibilities in the global development community, we set impact targets aligned to the **UN Sustainable Development Goals (SDGs)**. Our goal is to accelerate progress in several critical issue areas laid out within these two frameworks. Through such alignment, we can begin to understand the scale of the needs addressed through investment and the pace of change required to address them effectively.

Aligning to this commonly used framework offers several significant benefits:

- Aligning to this global development framework contextualizes impact using a clear, well-documented assessment of the needs facing our planet and communities based on scientific consensus and geopolitical agreement on the greatest issue areas facing society.
- The SDGs are commonly used across the development finance and impact investing communities, and thus reflect international standards and best practices.
- Aligning to the SDGs enables integration with global efforts, driving toward cohesion, cooperation, and comparability with our peers and partners. This alignment shows us whether our collective efforts help address the world's most significant challenges — poverty reduction, overcoming inequality, addressing food insecurity — each year.

The SDGs can, of course, be used in myriad ways to guide target setting and strategy. Because DFC aims to accelerate development impact and mobilize private capital, we sought to leverage the SDG framework to guide our momentum and pursuit of positive change. Practically speaking, this means understanding the end objectives of the SDGs, the amount of change needed to achieve those goals, and the pace of change required each year until 2030.

Example in action:

Accelerating water access

SDG target 6.1 aims for universal access to clean and reliable drinking water sources. Meanwhile, the **World Bank** estimates that 2.3 billion people living in DFC target markets — namely low-income, lower-middle-income, and upper-middle-income countries — currently lack access to clean drinking water. To close this gap by 2030 requires a 6.8 percent annual increase in the number of individuals connected to such reliable water infrastructure. DFC's target, in this instance, would be to grow access to drinking water through our portfolio of investments, by more than 6.8 percent annually. In doing so, we contribute to moving the needle in this critical basic service and accelerating the pace of change in a key issue area. By growing water access through its portfolio, DFC can accelerate progress meaningfully.

Getting started

In designing this approach, we considered a range of tactical and practical factors, as described below.

Where to begin

To get started, we needed to determine the scope of this effort. We aimed to identify concrete targets that reflect our investment thesis and priorities, rather than try to address all seventeen SDGs. Specifically, this means aligning to our focal sectors and themes (as shown below), each of which is aligned at a high level to the SDGs in our **impact theses**.

DFC's key sectors and cross-cutting priorities

Climate

Reduce greenhouse gas emissions, reduce climate vulnerability, and enable sustainable land use practices

Inclusion

Advancing economic inclusion and financial resilence for women (2X) and other underrepresented populations

Priority Sectors

Energy
Improve access to clean, reliable, and affordable energy

Health
Improve population health and create robust, resilient health systems

Infrastructure and critical minerals
Increase connections to services such as water, transportation, and ICT

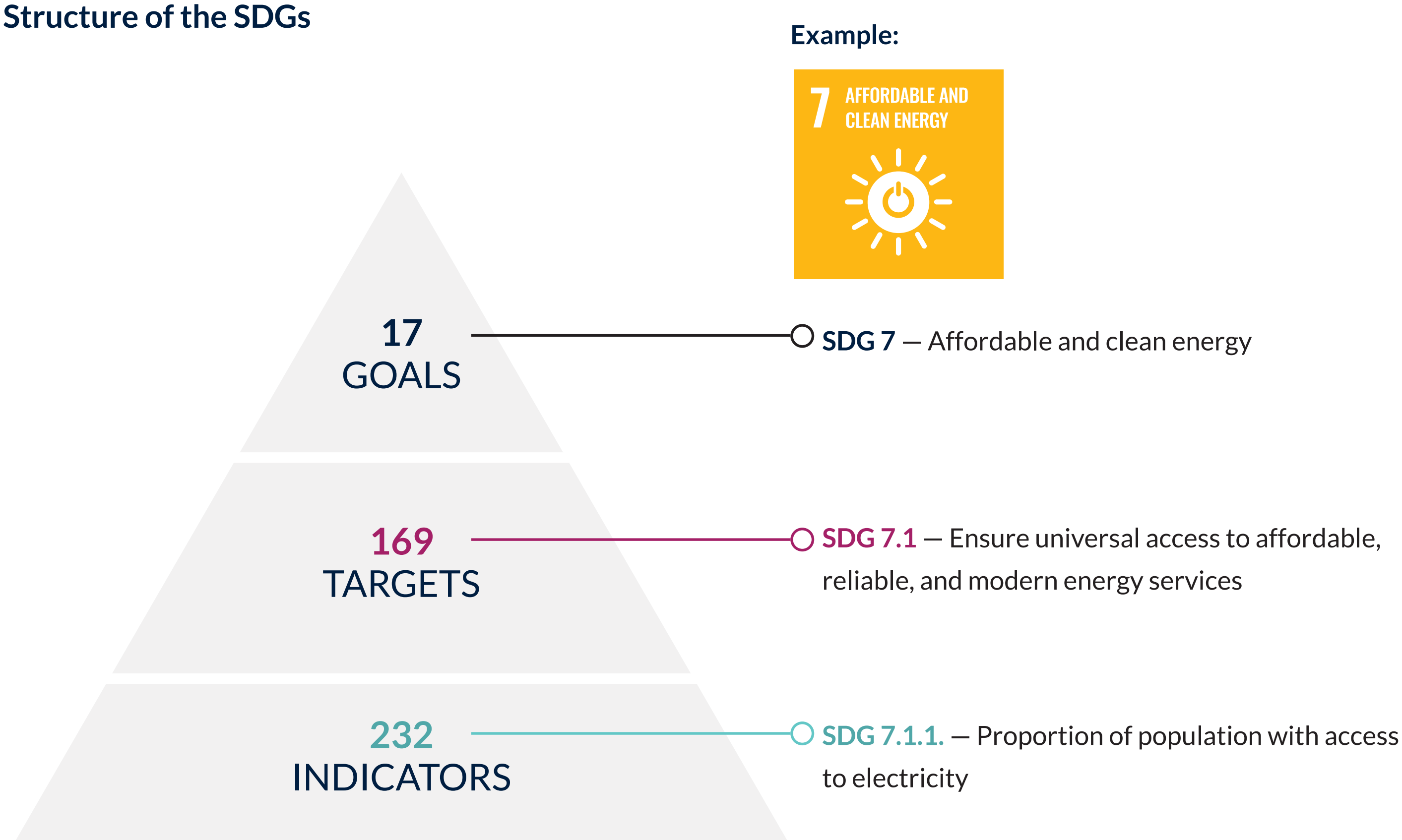
Food security and agribusiness
Increase agricultural productivity, yield, and farmer income

Small business support and financial services
Increase access to financial services and improve financial resilience

How to use the SDGs

The SDGs are built with several layers, beginning with the 17 overarching goals. Within each goal, there are several specific, concrete targets. And for each target, the SDG framework describes a total of 232 specific indicators that can help gauge progress with corresponding metadata.

Structure of the SDGs



To translate these targets into a clear assessment of the scale of the challenge at hand, organizations can consult the SDG metadata corresponding to the identified SDG target and indicator. These metadata represent harmonized data sources managed by neutral third-party bodies, such as the World Bank or World Health Organization, and identified by the UN. They are intended to offer a glimpse into progress along these indicators at both the global and country levels, exploring topics such as the share of renewable energy as a proportion of each country's energy mix (SDG 7.2) and the number of individuals with access to the Internet (SDG 9.1). In instances where there are no metadata, organizations can look to sector-specific bodies, such as the International Renewable Energy Agency (IRENA) and the Small and Medium Enterprise (SME) Finance Forum, for data.

How to identify the most appropriate SDG target

Before digging into the data, it is important to identify which specific SDG targets we will pursue so we can maintain focus and adequately prioritize portfolio construction. Should our organization align to SDG 2.1 or SDG 2.2, for example? This requires a careful scan of each target under a given sustainable development goal to identify which is most relevant and reflective of DFC's activity. Through this exercise, we carefully consider three key characteristics:

1) **Alignment:** Which SDG target best aligns to the nature of our objectives — and therefore the types of projects we will likely invest in — in each area? For example, when it comes to energy, we principally invest in energy projects designed to expand access to reliable energy (SDG 7.1) and to generate more renewable energy (SDG 7.2). Other SDG targets under Goal 7 address other facets of the energy space, which are not as prominent in DFC's portfolio.

2) **Concreteness:** Is the SDG target clear, quantitative, and concrete? Some targets describe general ambitions for development progress (for example, "build resilience of the poor" [SDG 1.5] or "ensure significant mobilization of resources" [SDG 1.a]). Others propose a clear target state that can be quantified, such as eradicating the issue entirely (for example, "double agricultural productivity and incomes of small-scale producers" [SDG 2.3] or "ensure universal health coverage" [SDG 3.8]). The latter type of SDG target can be more objectively benchmarked to the goal itself.

3) **Measurability:** Can we measure progress toward the SDG target that is achieved through our portfolio of investments? To do so requires a set of impact metrics that closely align to the nature of the SDG target at hand. For example, to understand our contributions toward SDG 8.3, which focuses on promoting productive activities and entrepreneurship among micro, small, and medium enterprises (MSMEs), we can track the number of MSMEs provided credit, insurance, and other critical financial products through our investments. For each SDG target, we have also identified the most appropriate IRIS+ or HIPSO metrics to track our progress.

How to construct these targets

To determine how much change is needed and derive specific targets for DFC, we aimed to maintain a few core principles:

- **Keep it simple:** Using the above criteria, we identified one to three SDG targets for each of our focal sectors to ensure a clear alignment to our organization's priorities. This enables us to retain a simple and focused approach, while still building an approach that applies to a clear majority of our projects in each sector.
- **Define a geographic focus:** To calculate the pace of change needed to close the various SDG gaps, such as the number of individuals lacking access to reliable internet or affordable, modern energy sources, we explored both aggregate and country-level gaps in the countries in which DFC invests.[1] By excluding those countries outside of the scope and purview of DFC investment activity, we avoided distorting and underestimating the size of the gaps we are helping close.
- **Be practical:** There are many ways to design impact targets, but any approach should be one that is actionable, measurable, and implementable. As we designed our targets, we took great care to ensure that we had a clear plan in place to measure our clients' progress toward each target using standard impact metrics that clients can reasonably track and report.
- **Establish a deadline:** The SDGs are inherently time-bound, with a clear stated goal of achieving each goal by 2030. As we pilot this effort, we expect to learn about both our approach and our progress as our portfolio begins to deliver impact results. As such, we may revisit and revise our targets as needed, with expectations of a detailed review by 2030.

Each of these principles enables us to arrive a clear understanding of the annual rate of progress needed in our sector priority areas in order to realize the corresponding SDGs, which we then aim to outpace in our own portfolio. By exceeding these thresholds, we can further accelerate global development.

Example in action:

Supporting small businesses

SDG target 8.3 encourages the formalization and growth of MSMEs, including through access to financial services. Yet according to the **SME Finance Forum**, over 300 million micro, small, and medium-sized enterprises (MSMEs) are either fully or partially credit-constrained. These financing gaps limit the growth and sustainability of MSMEs, which play a critical role in driving economic growth, job creation, and entrepreneurship around the world. To close these gaps by 2030 requires a 3.0 percent annual increase in the number of MSMEs accessing credit and other financial services. DFC's target, therefore, would be to grow access to financing for MSMEs by more than 3.0 percent each year through its clients' activities. In doing so, DFC can accelerate MSME growth and development and thus support entrepreneurship and innovation, livelihood stability, and local economic growth.

1. This specifically includes low-income, lower-middle-income, and upper-middle-income countries.

A practical path toward implementation

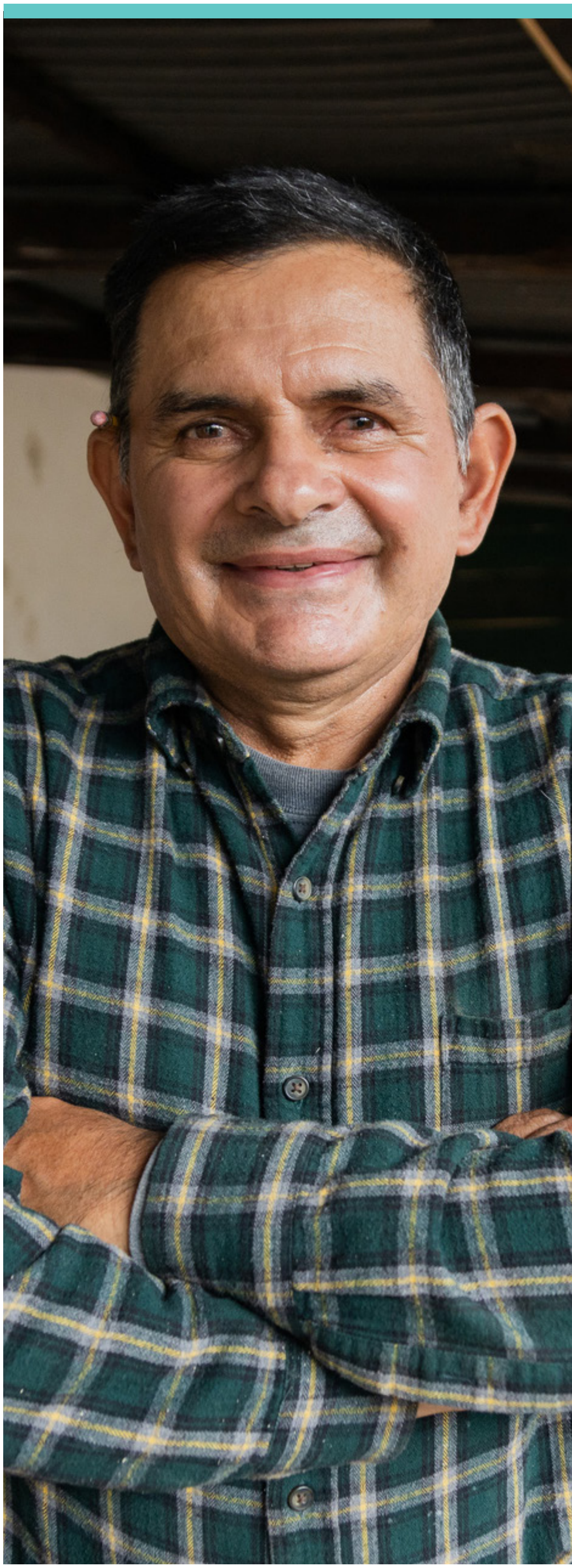
Setting impact targets represents the first step in impact management. By establishing this north star, we have a clear set of objectives and goals – but to realize these targets, we need to have a concrete, practical implementation plan for how we shape and manage our portfolio. As we start on this journey, we have an eye toward leveraging impact targets to inform two critical steps in our investment process.

Deal sourcing and portfolio construction

First, these targets can help us identify which markets and sub-sectors to prioritize within our business development efforts. For example, given our goal to expand digital connectivity and broadband access, we may choose to proactively search for investible information and communications technology opportunities in East and West Africa. According to World Bank data on the number of people lacking internet access and mobile subscriptions, there is a particularly significant need for investment and support in these regions. Of course, development impact needs are one of several inputs that shape portfolio design, alongside analysis of risk, financial potential, business viability, and other factors.

Impact measurement and management

Secondly, each year we track our portfolio's progress in achieving impact. Through our annual survey of clients' development outcomes, we can understand our year-on-year impact performance. How have DFC clients expanded the production of renewable energy, and how does this compare to the 4.2 percent annual change needed to achieve SDG 7.2? How many smallholder farmers have gained access to credit or other financial inputs, as compared to the 2.2 percent change required to close rural financing gaps? Through this analysis, we can identify achievements to celebrate, as well as opportunities to further enhance our impact going forward. This ongoing, iterative feedback loop channels learnings into the Corporation as DFC and our clients continue our impact journeys.



An eye on the horizon

Through this process of aligning our portfolio and goals to the SDGs, we have already learned a lot about target setting — and we expect to learn more in the coming years. We are keen to track our contributions toward accelerating change in a range of critical issue areas, to understand the extent to which our investments move the needle, and to identify opportunities to further strengthen our approach to cultivating development impact. Having strong, clear, and objective targets represents a critical early step in this process. As a DFI, we believe our commitment and our contributions to the global development agenda are pivotal. And we look forward to further iteration as we grow our experience in this realm, exchange learnings with other investors and development finance actors, and work collectively to solve the world's most pressing development challenges.