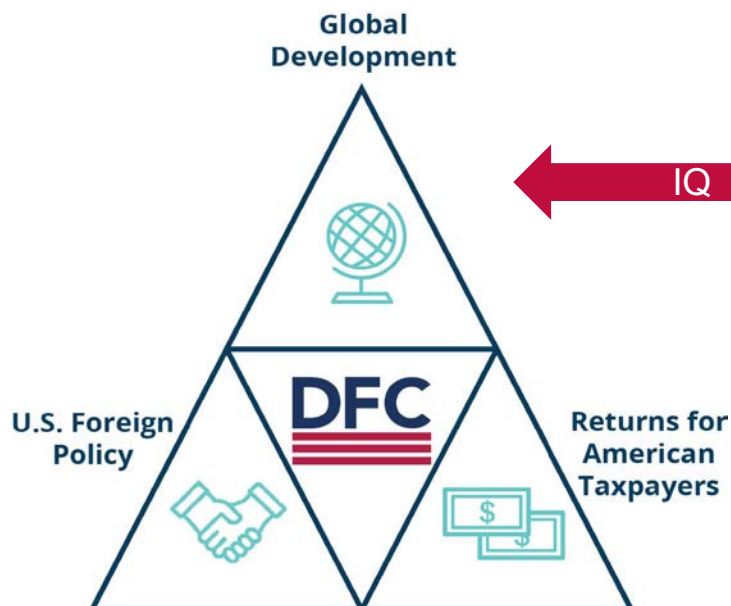


Developing DFC's New Development Performance Measurement System

What is Impact Quotient (IQ)?

DFC's Triple Aim Model



DFC's Triple Aim model has three key components:

- **Development:** We mobilize private sector investment to advance development in emerging economies around the world
- **Foreign Policy:** We serve as a critical tool of American foreign policy, mobilizing investment in regions of critical strategic importance
- **Returns:** Our investments generate returns for American taxpayers

What is IQ?

IQ is DFC's **development impact** management system that calculates a score based on each project's projected and actual contribution to **economic growth, inclusion, and innovation.**



DFC evaluates every project using IQ to measure, monitor, and evaluate its developmental impact around the world. The IQ score:

- Classifies projects into Highly Developmental (score of 112.5 or more), Developmental (score between 37.5 and 112), and Indeterminate (score below 37.5)
- Informs decision-making during the project approval process
- Reflects both the positive and negative impacts of investment
- Measures the development performance of each project over its life, as well as the overall DFC portfolio vis-à-vis other Agency priorities
- Creates mechanisms to maximize the development impact of every investment that the DFC supports
- Is managed by DFC's Office of Development Policy, in collaboration with the Chief Development Officer, to ensure a standardized and objective assessment of project impacts

IQ Development Pillars & Indicators

IQ uses three key pillars and indicators to evaluate DFC projects:

- **Economic Growth** including infrastructure improvements, contribution to local income, trade benefits to the local economy, and jobs supported, in the context of the host country's level of development
- **Innovation** including the development of new products or services, the use of innovative financial structures to mobilize private capital, knowledge or technology transfer, and environmental sustainability
- **Inclusion** including through products or services, diversified workforces, and inclusive supply chains that benefit underrepresented groups including low-income populations, smallholder farmers, young adults, women and women-owned enterprises, people with disabilities, indigenous peoples, refugees, and ethnic or religious minorities, in the context of the host country's socio-economic challenges



Pillar 1: Economic Growth

Factors of Production Projects that increase access to physical infrastructure and critical inputs to economic growth, such as energy, roads, ports, ICT, oil and gas, critical minerals. Scoring is based on the scale of impacts, in context of the host country's level of development in the sector.

Human Capacity Development Projects that increase access to basic human needs, such as healthcare, education, food security, housing. Scoring is based on the scale of impacts, in context of the host country's level of development in the sector.

Local Income Projects that increase income through local profits, taxes, salaries, and purchases of goods/services. Scoring is based on scale and benchmarked against DFC's active portfolio, in context of the host country's income level.

Jobs Projects that create formal jobs. Scoring is based on the scale of impacts and benchmarked against DFC's active portfolio, in context of the host country's employment challenges.

Financial Intermediaries Financial Intermediary projects that invest in local companies through debt or equity. Scoring is based on the amount of investment as a proxy for economic growth of downstream investees, in context of the host country's financial sector development.

Net Balance of Trade Projects that generate hard currency through export earnings based on the scale and benchmarked against DFC's active portfolio, in context of the host country's trade balance situation.

Bonus Points for High-Quality Jobs Voluntary initiatives that provide exemplary employee benefits, such as family-friendly and/or human capacity building benefits, and policies that advance women in the workplace.



Pillar 2: Innovation

Economic & Energy Diversification Projects that introduce new or uncommon products/services (including renewable energy) to the market or introduces new or uncommon operational techniques that will result in improved costs or product/service quality for end-beneficiaries. Scoring is based on the potential for sector-wide impacts, in the context of the host country's level of development in the sector.



Innovative Financial or Business Structures Projects that utilize new or uncommon financial or business models that aim to increase competition in the market (including projects that support government market reforms) and/or mobilize private capital through blended finance or other risk-sharing structures. Scoring is based on the potential for sector-wide impacts, in the context of the host country's level of development in the sector.

Knowledge or Technology Transfer Projects that provide meaningful technical assistance or knowledge transfer to customers, investees, suppliers, or the community. This includes the value-add that equity fund managers provide to their investees and environmental and social requirements in a company's supply chain. Scoring is based on the potential for sector-wide impacts.

Bonus Points for Environmental Sustainability Voluntary initiatives that aim to reduce the environmental impact of its operations, such as through sustainable building practices.

Pillar 3: Inclusion

Serves Underrepresented Populations Projects that serve underrepresented populations through the provision of goods and/or services. Underrepresented populations may include the poor, low-income, women and women-owned enterprises, smallholder farmers, youth, people with disabilities, indigenous peoples, refugees, and ethnic and religious minorities. Scoring is based on the proportion of new beneficiaries that are considered underrepresented in the context of the host country.

Inclusive Workforce Projects that provide formal employment for underrepresented populations, as described above. Scoring is based on the proportion of new employees that are considered underrepresented in the context of the host country.

Inclusive Supply Chains Projects that procure goods and services from underrepresented populations, as described above. Scoring is based on the proportion of suppliers that are considered underrepresented in the context of the host country.

Investment in SMEs Projects that invest in or otherwise serve locally-defined small- and medium-sized enterprises. Scoring is based on the proportion of new SME investees.

Investment in LICs/LMICs/Fragile States/Underdeveloped regions of UMICs Projects that are in countries that suffer from the lack of investment and are considered low-income, low-middle income, or fragile by the World Bank. This also includes projects that are in underdeveloped regions within an upper middle-income country that has a level of development similar to low-income or low-middle income country.

Bonus Points for Inclusive Governance Projects that have gender-diverse leadership and/or have voluntary initiatives that aim to engage the local community, employees, and/or other stakeholders in relevant decision-making.

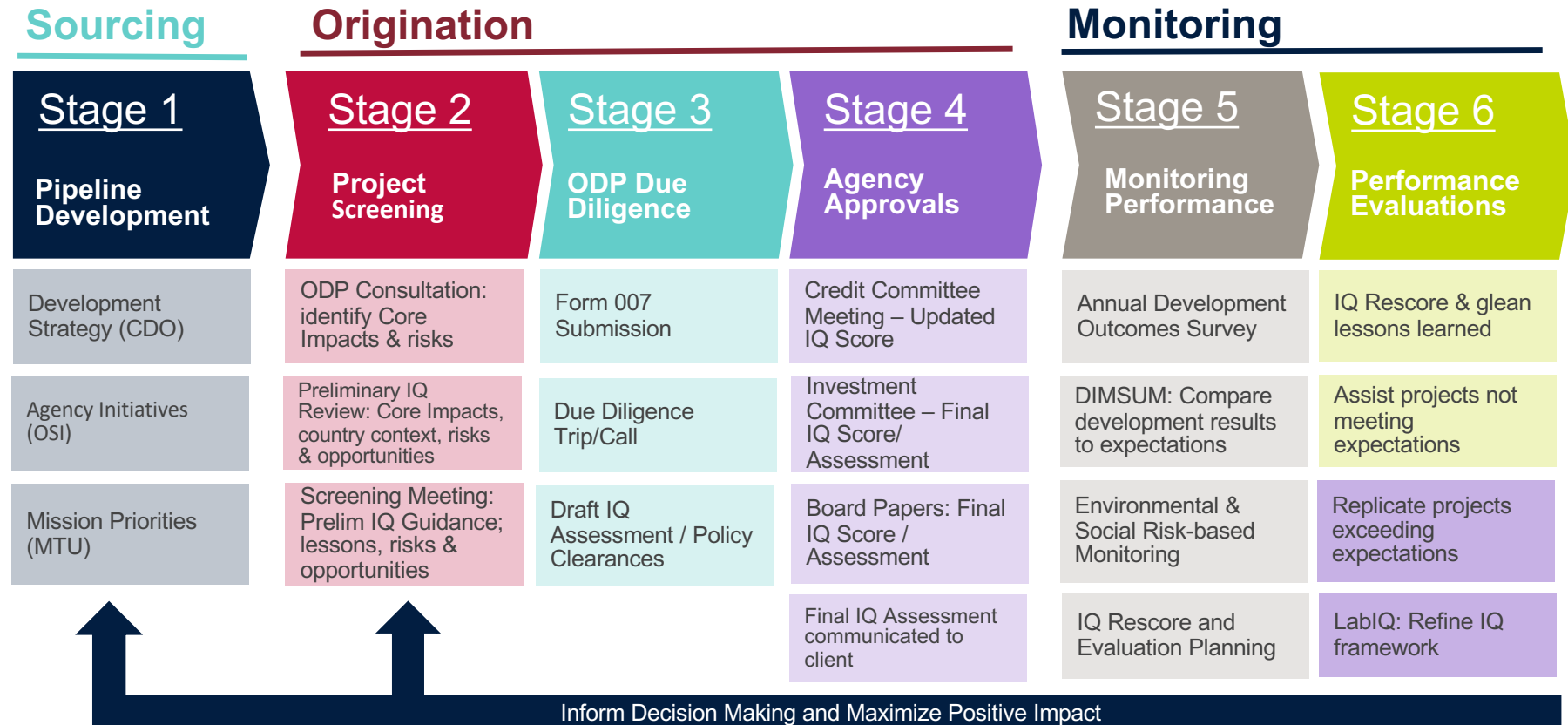


How does IQ scoring work?

The IQ score classifies projects into **Highly Developmental** (score of 112.5 or more), **Developmental** (score between 37.5 and 112), and **Indeterminate** (score below 37.5)



IQ in Project Approval Process



IQ Scoring Process: Step 1

Identify Project's Developmental Objectives and Core Impacts

Identify up to 3 Core Impacts

- Impacts that define the project's development objectives and performance over life of project
- Determined in collaboration with investor/deal team/ODP
- Each Core Impact is scored on a range of 0 to 37.5 points, based on breadth, depth, and country context

Identify up to 2 Ancillary Impacts

- Impacts that are noteworthy, but incidental to the Core Impacts or do not meet an identified development challenge
- Impacts that are aspirational in nature (e.g., increase diversity of workforce)
- Each Ancillary Impact is scored on a range of 0 to 15 points

Bonus Points

- Earned for initiatives that DFC wants to encourage of its investees. Up to 7.5 points can be earned for each of the below:
 - Voluntary and exemplary employee benefits that support families and employee development
 - Inclusive governance
 - Voluntary initiatives to reduce environmental impact of operations

Step 2

Incorporating Country Context



- The BUILD Act requires DFC to focus on LIC/LMICs
- IQ awards points in countries where developmental needs are great due to low income (LIC/LMIC status) or other identified critical development challenges
- Development challenges will be identified by credible, publicly available data that informs USAID’s Country Strategies, State Department’s Integrated Country Strategies, MCC’s Country Scorecards. DFC will leverage expertise from USAID Missions and Embassies
- Impacts that directly address a critical development challenge in the host country are considered “relevant” and are scored on a range of 0 (low) to 37.5 (high) based on breadth and depth of impacts
- When there is so evidence that the project will help address a development challenge in that country, potential impacts will be less heavily weighted — on a scale of 0 (low) to 15 (high) — based on the breadth and depth of impacts

Step 3a

Scoring for Breadth of Impact: Economic Growth Pillar



How does IQ score breadth of impacts?

- A project's breadth reflects the scale of impact and is captured in the indicators in the **Economic Growth Pillar**
- IQ has standardized scoring thresholds for quantitative metrics (such as jobs, local income, export earning, and investment through financial intermediaries), that are benchmarked against DFC's existing portfolio
- Impacts that are not easily quantified or able to be benchmarked are scored based on an assessment of affordability and scale of impact (country-wide, regional, or localized)

Step 3b

Scoring for Breadth of Impact: Inclusion Pillar

How does IQ score breadth of impacts?



- One measure of a project's depth of impact is how it benefits populations who are often left behind economically — underrepresented populations, such as the poor, low-income, SMEs, women, youth, people with disabilities, smallholder farmers, ethnic minorities, religious minorities, and refugees
- The **Inclusion Pillar** comprises metrics that reflect who the beneficiaries are of a project. Inclusion can be assessed through products and services that benefit underrepresented populations, and/or through inclusive workforces and supply chains
- IQ has standardized scoring indices, benchmarked against DFC's active portfolio, that are based on the percentage of the project beneficiaries that are from one or more underrepresented populations. As such, the scoring is not based on scale, but the extent of the project's inclusiveness to one or more underrepresented groups and in a variety of ways

Scoring for Innovation Pillar

How does IQ score innovation?



- One of the most challenging impacts to measure is innovation
- Innovation reflects how a project expects to achieve positive developmental impacts and often has demonstration effects that go beyond the project itself
- IQ scoring thresholds for innovation reflect the potential for sector-wide effects — whether it be through offering a product or service in the market for the first time, being the first investment in a host government market reform initiative, utilizing a financial structure that intends to mobilize private capital in the sector, or providing technical assistance to entities outside the firm itself
- Other innovations may expand access to uncommon products/services or create efficiencies that reduce prices or improve product quality to end consumers
- Other innovations may be limited to the operations of the enterprise itself, but the effects are less clear to the sector or end beneficiaries

Step 4

Adjusting for Risk & Maximizing Positive Impacts

How does IQ reflect potential negative outcomes?

- In order to give DFC management a holistic view of the potential impacts of projects under consideration during the project approval process, the IQ Score reflects potential environmental, social, or development risks (excluding credit risks)
- Risk adjustments are based on the assessments done for each project on the investor's demonstrated capacity to meet DFC's stringent environmental and social standards and may include prior experience with the investor and contextual issues in the country and/or sector
- Development risks may include the likelihood that the investor will not be able to demonstrate that the development objectives were achieved, the lack of customer feedback loop to ensure goods and services are high-quality, or the threat that corruption in the country will weaken potential impacts
- This assessment enables DFC to find opportunities to maximize positive development outcomes by providing ways to mitigate these risks, including the use of DFC technical assistance

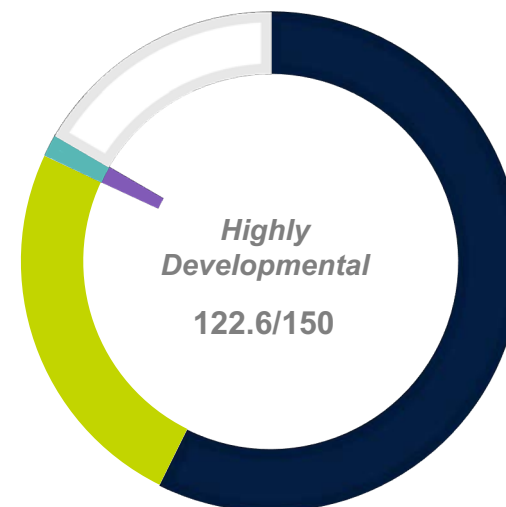
Step 5

IQ Score Calculation Summary

Impact Type	Points 0 - 150
Core Impacts (up to 3) <ul style="list-style-type: none"> Impacts that are Core and Relevant to Host Country Can be from within one pillar or across different pillars 	0 to 37.5 each (112.5 total)
Ancillary (up to 2) <ul style="list-style-type: none"> Impacts that are Core and no evidence of relevance to Host Country May be aspirational; will not define development performance Can be from within one pillar or across different pillars 	0 to 15 each (30 total)
Bonus Points (up to 3)	0 to 7.5 each (22.5 total)
Env./Soc./Dev. Impact Risk Adjustment	- 7.5 – 0 each (- 22.5 total)

Development Classifications	Points 0 - 150
Highly Developmental	112.5 and over
Developmental	37.5 to 112
Indeterminate	Below 37.5

PROJECT IQ SCORE



- Economic Growth
- Inclusion
- Innovation
- Risk Deductions

Step 6

Monitoring Development Performance

How is IQ incorporated into monitoring activities?

- **Data Collections** Client-submitted data from DFC's Development Outcomes Survey; with verification from USAID Missions and Embassies
- **IQ Tool** Developing new IT tool enabling Office of Development Policy (ODP) to easily compare project's baseline, projected, and actual annual data
- **IQ Rescore** Annual monitoring will inform ODP of projects that are not on track, enabling DFC to take remedial action, reassess expectations and IQ Score, prioritize evaluations, and recommend technical assistance

Step 7

LabIQ: Performance Evaluations

How is IQ used to glean lessons learned?

Performance evaluations will be used by DFC to glean lessons learned (LabIQ), enabling DFC to maximize positive impacts, reduce negative impacts, and refine the IQ framework itself.

Evaluations will enable DFC to:

- Take corrective action for projects not meeting development objectives
- Replicate projects that are exceeding expectations
- Increase probability of sustaining positive impacts of projects nearing the end of project term through close out evaluations
- Capture impacts not reflected in annual data collection, including indirect impacts and anecdotes
- Assess effectiveness of IQ framework through random selection of project evaluations spanning all DFC products, sectors, and geographies

Step 8a

DFC Portfolio Assessment: Triple Aim (Global Development)

How might IQ be used to assess DFC's portfolio?

One of the Agency's Key Performance Indicators:

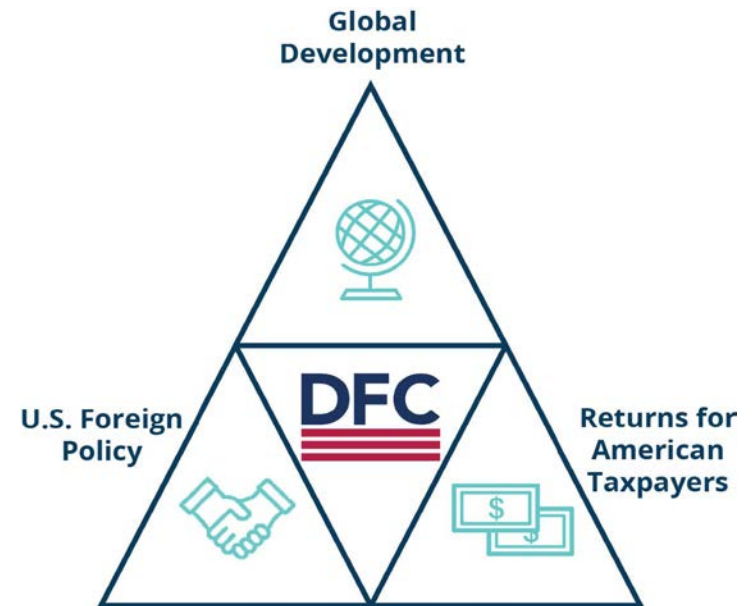
Example:

- 25% of projects in portfolio rated as Highly Developmental
- Average IQ score for portfolio: 100 out of 150

Help inform development strategy:

Example:

- Information Technology tends to create formal jobs from young adults, so focus on that sector in countries with high rates of youth underemployment



Step 8b

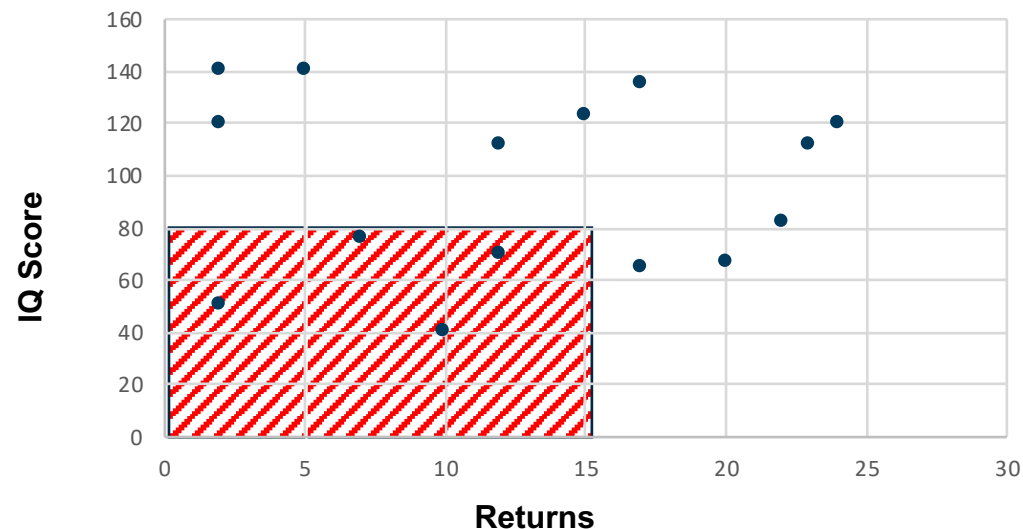
DFC Portfolio Assessment: Triple Aim (Returns for American Taxpayers)

How might IQ be used to assess DFC's portfolio?

Balance DFC's Global Development
performance vis-à-vis Returns for
American Taxpayers

- 25% of projects in portfolio rated as Highly Developmental
- Average IQ score for portfolio: 100 out of 150

IQ Score and Returns



Step 8c

DFC Portfolio Assessment: Triple Aim (U.S. Foreign Policy)

How might IQ be used to assess
DFC's portfolio?

Balance DFC's Global Development
performance vis-à-vis U.S. foreign
policy priorities.

