

Management Response to Dalberg Assessment

September 2022



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DFC is proud to announce the completion of its first independent portfolio performance assessment that analyzed the development performance of DFC's financial intermediary (FI) portfolio in Latin America.

Access to finance is critical to building wealth and driving inclusive economic growth. DFC partners with FIs to increase financial inclusion in the countries in which it operates by providing long-term loans that help them grow their portfolios to underserved regions, sectors, and populations. As such, it is one of DFC's priority sectors and represents approximately 40% of DFC's overall portfolio.

The assessment encompassed 36 DFC loans totaling US\$2.3 billion made to a broad range of 29 FIs across nine countries with six distinct impact themes: low-middle income housing, microenterprise, SME, women's empowerment, agriculture SME, and water, sanitation and hygiene (WASH). DFC commissioned Dalberg Advisors to conduct the assessment, which considered each of the DFC loan's development impact, compliance with DFC's legal requirements, and the likelihood that positive impacts will be sustained after the DFC loan matures.

The assessment concluded that the overall performance of DFC's portfolio was largely positive: nearly 70 percent of the loans are achieving their intended development outcomes despite the challenges wrought by the global COVID-19 pandemic. These loans are supporting approximately 110,000 microenterprises, SMEs and low and low-middle income housing borrowers—of which 66 percent are women and women-owned/led enterprises—to gain access to finance.

Despite this overall success, the assessment gleaned some important lessons and recommendations that would deepen DFC's positive impacts. DFC welcomes this feedback and we are already taking measures to respond to and follow high-level recommendations.

Enhancing inclusionary impacts. The assessment concluded that the DFC-supported FIs that were successfully reaching the target clientele have a strategy in place to intentionally grow that portfolio. These FIs have a dedicated team, targeted marketing, and a process to ensure its products and services are meeting the target clientele's needs. As such,

- DFC is standardizing its due diligence processes to ensure that DFC's financing aligns with the FI's internal goals and strategy to grow the target portfolio.
- DFC will offer technical assistance to interested FI clients to assist efforts to develop strategies, products, and services that will enable the FI to better serve the unique needs of women and women entrepreneurs.

Measuring DFC's impact on end borrowers. DFC's standard metrics for financial services focus on portfolio growth and reach, but they fail to capture how access to finance impacts the end borrowers' businesses and livelihoods. As such,

- DFC will begin using client surveying tools to enable both DFC and its clients to better understand the impact that access to finance has on end-borrowers.

Improving consistency and quality of impact data. FIs that were able to demonstrate the positive impacts of the DFC's loans had the capacity to provide high-quality impact data for the assessment. Data quality was highest when the DFC, the FI, and other loan origination partners were aligned on the development objectives and the metrics to measure development performance. As such:

- DFC has established a dedicated group of impact specialists that will be assessing impact data submitted by DFC clients on a 6-month cadence. This will enable DFC to quickly respond if a client appears to be off-track and ensure the collection of high-quality data.

- As part of its standard due diligence process, DFC will assess the potential FI client's technical capacity to report on the target portfolio, and DFC will provide technical support for enhancing reporting capacity, if necessary.
- DFC will improve communication with the client to ensure clarity on reporting requirements and definitions of the target clientele at the time of commitment.
- DFC has improved its impact questionnaires to streamline the number of questions and clarify definitions.

DFC deeply appreciates the collaboration with the participating financial institutions, Dalberg Advisors, and internal staff in completing this assessment. We are hopeful that the learnings gleaned from this assessment will be useful to other impact investors and development finance institutions, and we are looking forward to producing and sharing additional portfolio assessments in the future.

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