

IEG

Independent Evaluation Group

2009

Independent Evaluation of IFC's Development Results

KNOWLEDGE FOR PRIVATE SECTOR DEVELOPMENT



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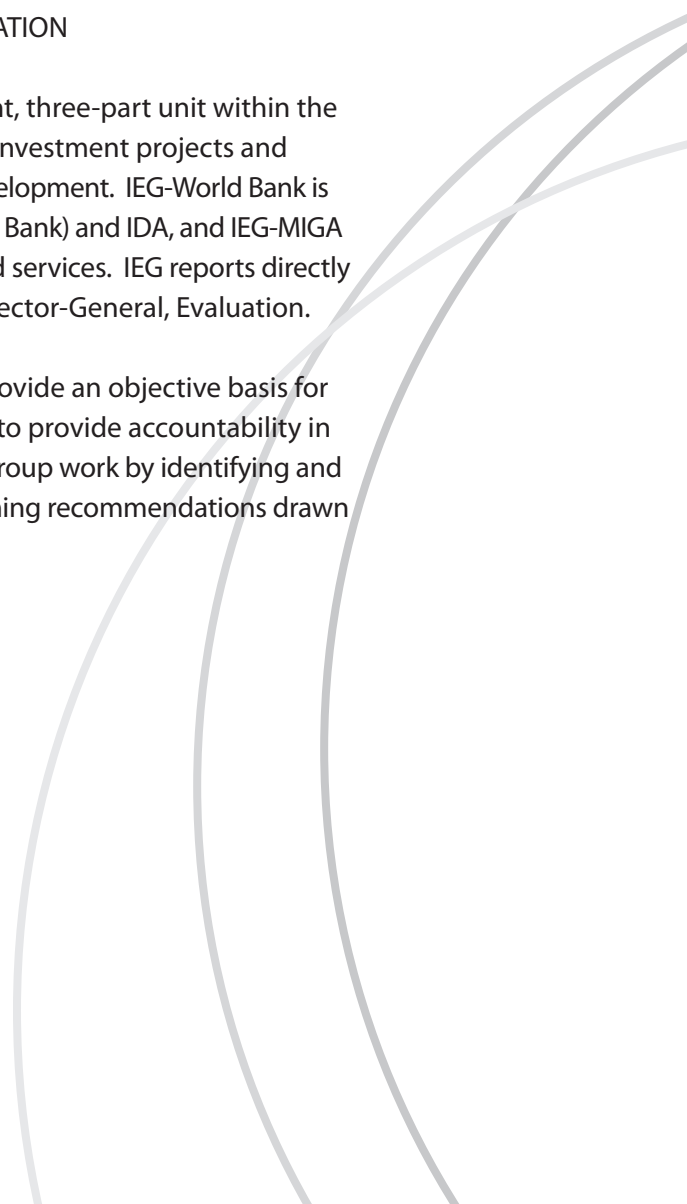
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ENHANCING DEVELOPMENT EFFECTIVENESS THROUGH EXCELLENCE AND INDEPENDENCE IN EVALUATION

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Independent Evaluation of IFC's Development Results 2009

Knowledge for Private Sector Development

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ABBREVIATIONS

A2F	Access to Finance (business line)
ADB	Asian Development Bank
AfDB	African Development Bank
AS	Advisory Services
BEE	Business Enabling Environment (business line)
CA	Corporate Advice (business line)
COI	Conflict of interest
DANIDA	Danish International Development Agency
DFID	Department for International Development
E&S	Environment and safeguards
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ERR	Economic rate of return
ESS	Environmental and Social Sustainability
ESW	Economic and sector work
FDI	Foreign direct investment
FI	Financial intermediary
FIAS	Foreign Investment Advisory Services
FRR	Financial rate of return
FY	Fiscal year
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
INF	Infrastructure (business line)
IS	Investment Services
IT	Information technology
M&E	Monitoring & evaluation
MDB	Multilateral development bank
MIGA	Multilateral Investment Guarantee Agency
PCR	Project Completion Report
PEP	Private Enterprise Partnership
PSD	Private sector development
RAEDO	Risk-Adjusted Expected Development Outcome
SME	Small- and medium-sized enterprise
TA	Technical assistance

DEFINITIONS OF EVALUATION TERMS

Investment operations:

Company:	The entity implementing the project and, generally, IFC's investment counter-party. For financial markets operations, it refers to the financial intermediary (or fund manager), as distinct from its portfolio of IFC-financed sub-project companies.
Operation:	IFC's objectives, activities, and results in making and administering its investment.
Project:	The company objectives, capital investments, funding program, and related business activities being partially financed by IFC's investment selected for evaluation.
<i>Example:</i>	"Through this <i>operation</i> IFC provided \$55 million for the <i>company's</i> \$100 million cement manufacturing expansion <i>project</i> in the form of a \$20 million A-loan, a \$30 million B-loan from commercial banks and a \$5 million equity investment."
Financial markets projects:	All projects where the company is a financial intermediary or financial services company, including agency lines and private equity investment funds.
Non-financial markets projects:	All other projects; sometimes referred to as "real-sector" projects.

Advisory Services operations:

Outcomes of AS operations:	Outcomes refer to implementation of recommendations or advice.
Impacts of AS operations:	Impacts refer to the changes that occurred following the implementation of recommendation.
<i>Example:</i>	An AS operation recommended that the country amend the leasing law to incorporate best practice in similar markets in the region. <i>Outcome</i> —the country amended the leasing law in accordance with the recommendation. <i>Impact</i> —the leasing industry became attractive to potential sponsors as evidenced by new companies that were established following the amendment of the leasing law.



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Foreword

IFC has been undergoing transformation of both its investment and advisory services operations in recent years. In particular, a sharp growth in its Advisory Services (AS) is changing the nature of the organization. IFC now has more staff in the field for AS than for Investment Services (IS), its traditional core business.

Independent Evaluation of IFC's Development Results 2009 takes stock of the development performance of IFC's investment operations, and examines, for the first time, the development effectiveness of its AS—thus offering the first holistic review of IFC's development results. On IS, the report finds that 72 percent of operations reaching early operating maturity between 2006 and 2008 met or exceeded their financial, economic, environmental, and social benchmarks, and made contributions to private sector development beyond just the project. This is a significant improvement over the 63 percent achieved between 2005 and 2007. Meanwhile, 70 percent of AS operations reviewed between 2006 and 2008 achieved high development effectiveness ratings. But these development results do not yet reflect the sharp deterioration in global economic conditions, which has just now begun to affect the economic environment in most developing countries.

Experience suggests there are considerable risks to development results but crises can also offer new opportunities that need to be grasped. Projects approved in the years prior to a crisis were about 15 percent less likely to achieve good results than otherwise. In the wake of past crises, investing was likely to lead to better results. But measures to protect the portfolio have tended to crowd out the proactive pursuit of new opportunities to broaden

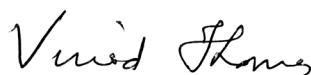
impact. This will need to change in IFC's response to the current crisis, so that the tension between protecting the portfolio and responding to opportunities can be effectively managed.

The risks and opportunities brought on by the current crisis extend to AS as well. The crisis exposes gaps in sustainable business practices and business regulation globally, thus offering IFC an opportunity for greater impact in these areas. But in order to do so, bold actions are needed. IFC's AS activities—fueled by donor money and IFC's own funding—have grown in a largely unchecked manner, raising concerns about the long-run sustainability of the current business model. Recent measures are intended to initiate a broad AS institutional realignment aimed at tackling these challenges.

The monitoring and evaluation (M&E) system for AS was only introduced in 2006. Nonetheless, it is possible to discern several patterns in performance. First, project development effectiveness has been strongest in Southern Europe and Central Asia, and weakest in Latin America and the Caribbean. Second, results were significantly better for infrastructure, business enabling environment, and corporate advice operations, and weaker in the case of environmental and social sustainability operations—a particular concern in Africa and for IFC's work with financial

institutions. Third, key drivers of performance appear to be: country conditions and client commitment; local presence and ownership; programmatic approaches, as opposed to one-off interventions; and the quality of IFC additionality and M&E. In this context, effective pricing of AS is fundamental because it should provide incentives to improve all aspects of the AS business.

To enhance its development effectiveness and additionality (unique role and contribution), IFC should formulate an overall strategy for its advisory services, addressing the need for a clear vision and business framework. At the same time, it must pursue more programmatic AS interventions, improve execution of the AS pricing policy, and strengthen AS performance measurement.



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Avant-propos

L'IFC a connu ces dernières années une période de transformations, tant du point de vue de ses opérations d'investissement que de ses activités de services-conseil. La croissance rapide de ces dernières, en particulier, entraîne un changement de nature de l'organisation. L'IFC compte désormais sur le terrain plus de personnel pour les services-conseil que pour les services d'investissement, qui étaient traditionnellement son cœur de métier.

Le présent rapport du Groupe indépendant d'évaluation présente un bilan des réalisations des opérations d'investissement de l'IFC au service du développement et, pour la première fois, de l'efficacité de ses services-conseil, offrant ainsi la première appréciation globale de sa contribution effective au développement.

S'agissant des projets d'investissement, il est constaté que 72 % des opérations parvenues à leur régime de croisière entre 2006 et 2008 ont atteint ou dépassé leurs valeurs de référence financières, économiques, environnementales et sociales, et ont contribué au développement du secteur privé au-delà du projet proprement dit, ce qui marque une nette amélioration par rapport aux 63 % enregistrés entre 2005 et 2007. Parallèlement, 70 % des opérations de services-conseil examinées entre 2006 et 2008 se sont vu attribuer une note élevée du point de vue de leur efficacité au plan du développement. Mais ces résultats ne rendent pas encore compte de la grave détérioration des conditions économiques mondiales, qui ne commence que maintenant à retentir sur le climat économique dans la plupart des pays en développement.

L'expérience donne à penser que les risques pour les résultats de développement sont considéra-

bles, mais les crises peuvent aussi offrir des opportunités nouvelles, qu'il faut savoir exploiter. La probabilité que les projets approuvés dans les années précédant une crise produisent des résultats satisfaisants est de 15 % environ inférieure à ce qu'elle est pour les autres. Investir dans la foulée de crises passées offre une meilleure probabilité de bons résultats. Mais les mesures prises pour protéger le portefeuille ont souvent pour effet de supplanter la poursuite dynamique d'opportunités nouvelles qui permettraient d'élargir l'impact des projets. Il y a là un aspect qu'il faudra modifier dans la manière dont l'IFC réagira à la crise actuelle, de manière à bien gérer les tensions entre la protection du portefeuille et le parti à tirer d'opportunités nouvelles.

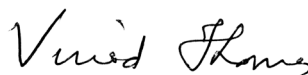
Les risques et les opportunités découlant de la crise actuelle touchent également les services-conseil. La crise met en évidence des lacunes dans le monde entier, en matière de pratiques commerciales durables, de réaction pour atténuer les effets du changement climatique et de réglementation des activités commerciales, offrant ainsi à l'IFC une occasion de développer son impact dans ces domaines. Mais pour y parvenir, il faudra des interventions hardies. Les activités de conseil de l'IFC, alimentées par les contributions

des donateurs et son financement propre, se sont développées sans contrôle pour une bonne part, ce qui suscite des préoccupations pour la viabilité à long terme du modèle d'activités actuel. Des mesures récentes ont eu pour objet d'entamer un réalignement institutionnel des services-conseil visant à rectifier ce qui doit l'être.

Le système de suivi et d'évaluation n'a été introduit pour les services-conseil qu'en 2006, mais il est possible de dégager plusieurs tendances dans les réalisations. Premièrement, c'est en Europe méridionale et en Asie centrale que l'efficacité des projets au plan du développement a été la plus marquée, et c'est en Amérique latine et dans les Caraïbes qu'elle a été la plus faible. Deuxièmement, les résultats ont été nettement meilleurs pour les projets concernant l'infrastructure, l'instauration d'un cadre porteur pour les entreprises, et les conseils aux sociétés, alors qu'ils ont été moins satisfaisants pour les opérations axées sur la viabilité environnementale et sociale—ce qui est particulièrement préoccupant en Afrique et pour

les activités où l'IFC travaille avec des institutions financières. Troisièmement, les principaux déterminants des résultats semblent être : les conditions dans le pays et l'engagement du client ; les approches-programmes, plutôt que les interventions ponctuelles ; la qualité de la valeur ajoutée par l'IFC, et de ses activités de suivi et d'évaluation. Dans ce contexte, il est fondamental que le prix des services-conseil soit fixé de manière efficace, car cela devrait inciter à améliorer tous les aspects des activités des services-conseil.

Pour renforcer l'efficacité de son action au service du développement et sa valeur ajoutée (son rôle et son concours sans équivalent), l'IFC devra définir une stratégie globale pour ses services-conseil, qui énonce clairement une perspective et un schéma d'activité. Parallèlement, elle devra chercher à inscrire les interventions des services-conseil dans une démarche plus globale de programme, améliorer l'application des politiques de fixation des prix des services-conseil, et renforcer la mesure des réalisations de ces services.



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Évaluation



Prólogo

En los últimos años, las operaciones de servicios de inversiones y de asesoría de la IFC han venido experimentando transformaciones. En especial, un pronunciado crecimiento de sus servicios de asesoría está modificando las características del organismo, que cuenta actualmente con más funcionarios de servicios de asesoría sobre el terreno que los que destina a su esfera de actividad básica tradicional: los servicios de inversiones.

En la presente Evaluación Independiente de los Resultados de Desarrollo se pasa revista al desempeño de las operaciones de inversiones de la IFC en términos de desarrollo y se examina, por primera vez, la eficacia en términos de desarrollo de sus servicios de asesoría, por lo cual se ofrece el primer examen integral de los resultados obtenidos por la Corporación en términos de desarrollo.

Con respecto a los servicios de inversiones, en el informe se constata que el 72% de las operaciones que llegaron a un vencimiento operativo anticipado entre 2006 y 2008 cumplieron o excedieron sus parámetros de referencia financieros, económicos, ambientales y sociales, y contribuyeron al desarrollo del sector privado más allá del proyecto, lo que implica una mejora significativa con respecto al 63% logrado entre 2005 y 2007. En comparación, el 70% de las operaciones de servicios de asesoría examinadas entre 2006 y 2008 lograron altas calificaciones en cuanto a eficacia en términos del desarrollo. No obstante, esos resultados relativos al desarrollo aún no reflejan el profundo deterioro de las condiciones económicas mundiales, que recién ahora han comenzado a afectar al entorno económico de la mayoría de los países en desarrollo.

La experiencia indica que los resultados en términos de desarrollo están expuestos a riesgos considerables, pero las crisis pueden también ofrecer nuevas oportunidades que es preciso aprovechar. La probabilidad de que los proyectos aprobados en los años que precedieron a una crisis obtuvieran buenos resultados fue alrededor de 15% menor que la de los restantes. Invertir después de las crisis del pasado ofreció mayores probabilidades de obtener mejores resultados, pero las medidas destinadas a proteger la cartera han tendido a desplazar la búsqueda proactiva de nuevas oportunidades de ampliar el impacto. Esto tendrá que cambiar en la respuesta de la IFC a la crisis actual, para poder manejar eficazmente la tensión entre protección de la cartera y respuesta a las oportunidades.

Con respecto a los servicios de asesoría, los riesgos y oportunidades que plantea la crisis actual también se extienden a ellos. La crisis pone de manifiesto vacíos en procedimientos operacionales sostenibles, mitigación del cambio climático y reglamentos de negocios en todo el mundo, lo que ofrece a la IFC la oportunidad de suscitar un mayor impacto en esas esferas. Pero para lograrlo se requieren medidas audaces. En gran medida, las actividades de los servicios de asesoría de la

IFC, alimentadas por dinero de los donantes y recursos financieros propios de la IFC, han aumentado en forma incontrolada, lo que genera preocupaciones acerca de la sostenibilidad a largo plazo del actual modelo de actividad. Las medidas recientes están destinadas a poner en marcha una amplia realineación institucional de los servicios de asesoría encaminada a hacer frente a esos desafíos.

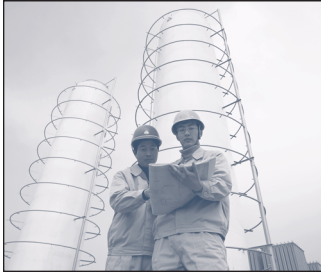
El sistema de seguimiento y evaluación de los servicios de asesoría recién se introdujo en 2006, pese a lo cual es posible discernir varias modalidades de desempeño. Primero, el más alto nivel de eficacia en el desarrollo de proyectos se registró en las regiones de Europa meridional y Asia central, y el más bajo en la región de América Latina y el Caribe. Segundo, los resultados fueron considerablemente mejores en materia de infraestructura, condiciones propicias para los negocios y operaciones de asesoría para empresas, y menos satisfactorios en el caso de las operaciones de sostenibilidad ambiental y social, que fueron motivo de especial preocupación en África y para la

labor realizada por la IFC con instituciones financieras. Tercero, los siguientes son, al parecer, factores determinantes clave del desempeño: condiciones del país e identificación del cliente con sus operaciones; utilización de enfoques programáticos, en lugar de intervenciones aisladas; calidad de la adicionalidad de la IFC y del sistema de seguimiento y evaluación. En este contexto es fundamental la determinación efectiva de precios de los servicios de asesoría, que previsiblemente creará incentivos para mejorar en todos sus aspectos las actividades propias de los servicios de asesoría.

Para lograr mayor eficacia en términos de desarrollo y adicionalidad (papel singular y contribución), la IFC debería formular una estrategia global para sus servicios de asesoría, atendiendo la necesidad de una visión y un marco de negocios más claros. Al mismo tiempo, debe tratar de realizar más intervenciones de servicios de asesoría programáticas, mejorar la ejecución de la política de precios de tales servicios y fortalecer la medición del desempeño en materia de servicios de asesoría.



Vinod Thomas
Director general
de Evaluación



تمهيد

ما برحت مؤسسة التمويل الدولية جتاز عملية تغيير في السنوات الأخيرة. في عملياتها الاستثمارية وخدماتها الاستشارية على السواء. وبصفة خاصة. بدأت زيادة حادة في خدماتها الاستشارية في تغيير طبيعتها التنظيمية. والآن لدى المؤسسة عدد من موظفي الخدمات الاستشارية في الميدان أكثر مما لديها من موظفي الخدمات الاستثمارية. التي تمثل نشاطها الأساسي التقليدي.

التي تمت الموافقة عليها في السنوات السابقة لحدوث أزمة نتائج جيدة أقل بنسبة 15 في المائة تقريبا مما لو لم تحدث الأزمة. وكان من المحتمل أن يحقق الاستثمار في أعقاب الأزمات السابقة نتائج أفضل. ولكن إجراءات حماية الحافظة أدت عادة إلى مزاحمة السعي التفاعلي لاغتنام الفرص الجديدة لتوسيع نطاق الأثر. ويتعين تغيير هذا في تصدي مؤسسة التمويل الدولية للأزمة الحالية. حتى يمكن أن تدار بفعالية عملية الشد والجذب بين حماية الحافظة واغتنام الفرص.

وفيما يتعلق بالخدمات الاستشارية. فإن المخاطر والفرص التي جلبتها الأزمة الحالية تمتد أيضا إليها. فالأزمة تكشف عن وجود فجوات في ممارسات العمل المستدامة. وتخفيف آثار تغير المناخ. وتنظيم أنشطة الأعمال عالميا. وبذلك تتيح لمؤسسة التمويل الدولية فرصة لتحقيق أثر أكبر في هذه المجالات. ولكن لكي تفعل ذلك. هناك حاجة إلى اتخاذ إجراءات جريئة. وقد زادت أنشطة الخدمات الاستشارية التي تقدمها المؤسسة. مدفوعة بأموال المانحين والتمويل من المؤسسة نفسها. بطريقة غير محكومة إلى حد كبير. مما أثار قلقا بشأن استدامة نموذج العمل الحالي على المدى الطويل. وتستهدف الإجراءات التي اتخذت في الآونة الأخيرة الشروع في عملية واسعة لإعادة تنظيم الخدمات الاستشارية مؤسسيا بهدف التصدي لهذه التحديات.

ويقيم هذا التقييم المستقل للنتائج الإنمائية الأداء الإنمائي للعمليات الاستثمارية للمؤسسة. ويفحص. للمرة الأولى. الفعالية الإنمائية لخدماتها الاستشارية - وبذلك يقدم أول استعراض شامل للنتائج الإنمائية التي حققتها المؤسسة.

فيما يتعلق بالخدمات الاستثمارية. وجد التقرير أن نسبة 72 في المائة من العمليات التي بلغت مرحلة النضج التشغيلي المبكر فيما بين عامي 2006 و2008 لبت أو تجاوزت المعايير القياسية المالية والاقتصادية والبيئية والاجتماعية الموضوعة لها. وقدمت إسهامات في تنمية القطاع الخاص بما يتجاوز المشروع المعني - وهو ما يمثل حسنا كبيرا على النسبة التي بلغت 63 في المائة والتي حققت فيما بين عامي 2005 و2007. وفي الوقت نفسه. حققت نسبة 70 في المائة من عمليات الخدمات الاستشارية التي استعرضت فيما بين عامي 2006 و2008 تقديرات فعالية إنمائية عالية. ولكن هذه النتائج الإنمائية لا تعكس بعد التدهور الحاد في الأوضاع الاقتصادية العالمية. الذي بدأ الآن يؤثر في البيئة الاقتصادية في معظم البلدان النامية.

وتوحي التجارب بأن هناك خطرا كبيرا على النتائج الإنمائية ولكن الأزمات يمكن أيضا أن تتيح فرصا جديدة يتعين اقتناصها. فقد كان احتمال تحقيق المشروعات

ولتحسين الفعالية الإنمائية للمؤسسة بالإضافة التي تقدمها (الدور والإسهام الفريدين)، يجب أن تضع مؤسسة التمويل الدولية استراتيجية لخدماتها الاستشارية، تلبي الحاجة إلى رؤية وإطار عمل واضحين. وفي الوقت نفسه، يجب عليها أن تسعى إلى تقديم خدمات استشارية أكثر برامجية؛ وتحسين تنفيذ سياسة تسعير الخدمات الاستشارية؛ وتقوية نظام قياس أداء الخدمات الاستشارية.

لم يطبق نظام المتابعة والتقييم الخاص بالخدمات الاستشارية إلا في عام 2006. ومع ذلك، فبالإمكان استشفاف عدة أنماط في الأداء. أولاً، كانت الفعالية الإنمائية للمشروعات أقوى ما تكون في منطقة أوروبا الجنوبية وآسيا الوسطى وأضعف ما تكون في منطقة أمريكا اللاتينية والبحر الكاريبي. ثانياً، كانت النتائج أفضل كثيراً في قطاع البنية الأساسية، والبيئة التمكينية لأنشطة الأعمال، والعمليات الاستشارية للشركات، وأضعف في حالة عمليات الاستدامة البيئية والاجتماعية - وهو مصدر قلق خاص بالنسبة لمنطقة أفريقيا وعمل مؤسسة التمويل الدولية مع المؤسسات المالية. ثالثاً، يبدو أن المحركات الرئيسية للأداء هي: الأوضاع القطرية والتزام المتعاملين مع المؤسسة؛ والمناهج البرامجية مقابل الإجراءات التدخلية لمرة واحدة؛ ونوعية بالإضافة التي تقدمها المؤسسة ونظام المتابعة والتقييم الذي تطبقه. وفي هذا الإطار، يعتبر التسعير الفعال للخدمات الاستشارية أمراً أساسياً. لأنه هذا يفترض أن يوفر حوافز لتحسين كافة جوانب أنشطة الخدمات الاستشارية.

Vinod Thomas

Vinod Thomas

مدير عام
إدارة التقييم



Executive Summary

Over the last decade, many developing countries have experienced strong economic growth, typically accompanied by falling levels of poverty. The private sector has been a key contributor to this growth, mainly through new capital investment, but also through fostering innovation and entrepreneurship, helping to create jobs, and opening up new markets.

Developing countries with the highest levels of private investment and those that have made the biggest strides in bridging knowledge and technology gaps with the developed world—from India to the Baltic States—have generally grown the quickest.

The current global financial crisis places many of these hard-won gains under severe threat. The crisis began in the developed world, but has since spread to the developing world, and has particularly affected countries with economies more connected to global markets. Import demand from developed countries is falling, and companies in developing countries, both large and small (particularly small), have also found that funds for new investment have dried up, or have become much more expensive and more difficult to obtain. Private capital flows to developing countries in 2009 are expected to be, at best, about half their level in 2007 (of \$1 trillion). Past crises suggest that it may take some years for these flows to return to their precrisis levels. More generally, the crisis has led policy makers and analysts to reevaluate the role of markets and the private sector, particularly where the value of effective regulation, prudential oversight, and fiduciary management was wrongly deemphasized or ignored.

In times like these, IFC's dual role as a financier and as a provider of knowledge (together with the

World Bank) assumes particular importance. Concerning the first role, IFC's founding articles state that the Corporation should invest in viable private sector projects in developing countries for which "sufficient private capital is not available on reasonable terms."¹ In such crisis times, the onus is on IFC to ramp up its financing efforts. But IFC's second role as a knowledge provider (together with the World Bank) is also important, particularly as policy makers and administrators focus on business regulations, good governance, and the environmental and social sustainability of growth. IFC provides advice that helps to shape the conditions for sustainable private sector development—for example, through promoting more effective regulation—and to enhance the capacity, skills, and behavior of actors involved with private sector enterprise in the field (including effective management of the social and environmental effects of private activities).

This *Independent Evaluation of IFC's Development Results* (IEDR) looks at each of these roles in turn: IFC's effectiveness in financing development through its growing portfolio of investment operations, with an emphasis on IFC's experience during previous crises and in helping clients mitigate investment risks (Part I); and—for the first time and as the main theme of this report—the Corporation's experience organizing and delivering its Advisory Services (AS) interventions, that

is, knowledge services the IFC provides to either private companies or governments in support of private sector development (Part II). In terms of results, the report focuses on IFC investment operations that reached early operating maturity between 2006 and 2008, and IFC AS projects with Project Completion Reports during the same period. The review of AS development effectiveness comes with certain caveats, given that the monitoring and evaluation system was only introduced in 2006, and considering the often intangible nature of knowledge transmission. Nonetheless, the report, for the first time, provides a combined account of both arms of IFC's business—investments and AS—including situations where these instruments have been offered to the same client. The report also complements a recent IEG evaluation of the effectiveness of World Bank economic and sector work and technical assistance, which was completed in 2008.²

Financing Development

IFC's portfolio of investment operations (loans, equity, and other financial products) continued to grow in the last year. The cumulative volume of active investment activities increased by about a quarter, from \$32.7 billion in fiscal year (FY) 2007 to \$40 billion in FY 2008. The number of investments rose by a lesser order (8 percent), reflecting a general preference for larger investment operations (increasingly involving corporate finance rather than project finance), and a more wholesale approach to reaching small and medium enterprises (SMEs), that is, through financial intermediaries and larger companies.

A growing portfolio provides opportunities to extend the Corporation's development reach. IEG's evaluations of investment operations that reached early operating maturity between 2006 and 2008³ show that IFC's project development results improved overall. More specifically, 72 percent of evaluated projects (85 percent by volume) achieved outcomes that, on balance, met or exceeded project financial, economic, and environmental and social benchmarks and standards, and made positive contributions to private sector development beyond the project. This compares with 63 percent of projects (75 percent by volume)

achieving high outcomes in 2005–07. On a cumulative basis, since independent evaluation started in 1996 and up to and including 2008, 62 percent of projects (70 percent by volume) have achieved high development outcome ratings.

Stronger overall results in recent years reflected several factors: i) the exit of a particularly weak performing cohort of projects, which matured in 2005 (51 percent of projects maturing in 2005 realized high development outcomes, compared with 75 percent maturing in 2008); ii) more favorable economic conditions in much of the developing world (until late 2008, by which time most evaluated projects had been substantially implemented); iii) improvement in IFC project appraisal and structuring quality; iv) the conscious move by IFC toward larger projects, which have been likely to achieve higher ratings than smaller projects, due in part to greater internal scrutiny; and v) especially strong performance in Europe and Central Asia, and in Latin America and the Caribbean, where the majority of mature operations are located. In these regions, business conditions were most supportive and IFC work quality was strongest. South Asia exhibited improving performance, with higher IFC work quality than in the past.

Performance lagged considerably in East Asia and the Pacific, and in the mainly low-income Middle East and North Africa, and Sub-Saharan Africa—with barely half of the projects in these regions meeting or exceeding specified benchmarks and standards. External conditions were partly responsible—projects in Sub-Saharan Africa and Middle East and North Africa generally featured high levels of country, sponsor, and product competitiveness risks—but the quality of IFC's work and contribution to the project tended to have a larger impact. This was especially the case in East Asia and the Pacific, where nearly 40 percent of projects exhibited low quality of IFC additionality. There is evidence of better screening and appraisal work in Middle East and North Africa and improved supervision quality in Sub-Saharan Africa.

Among IFC's strategic sectors, project performance showed continued improvement in health

and education, it was better in agribusiness, and remained strong in infrastructure and financial markets. At the same time, performance lagged in nontelecommunications information technology (software and Internet).⁴ In other sectors, oil, gas, mining, and chemicals projects achieved relatively poor ratings. Risk exposure was clearly a factor in weak nontelecommunications information technology projects, most of which were small operations involving inexperienced sponsors and unclear product competitiveness. However, work quality in this sector was also well below par, with high ratings in just 40 percent of cases. Improved work quality was in evidence in the health sector, where IFC showed that it had learned lessons from past experience, but the portfolio has not achieved much diversity. Oil, gas, mining, and chemicals projects did not meet benchmarks for a number of reasons: technical weaknesses of the sponsor; higher than expected asset acquisition cost; and in one case, unsatisfactory environmental compliance. Environmental and social effects ratings were stable for real sector projects, but remained weak in financial intermediary operations, reflecting the need to strengthen client capacity and securing their commitment, as well as addressing shortfalls in IFC supervision and additionality.

The development results reported above do not yet reflect the sharp deterioration in global economic conditions, which has just now begun to affect investment returns in most developing countries. The development results reported here largely reflect project experience during 2003–08, a period of unprecedented growth in emerging markets. Most evaluated projects had been substantially implemented, and some had been closed by late 2008 when the crisis started to affect the developing world.

The development results of maturing operations are, however, expected to decline in the coming years. Past evaluation shows that projects approved in the years prior to the crisis (and being implemented during the downturn) are most at risk from a development perspective. Approximately 40 percent of IFC's portfolio (62 percent by volume) falls into this category, thus the Corporation is exposed to considerable downside

development risk. At the same time, IFC has considerably strengthened its internal risk management processes and its capacity to bear and manage financial risks appears to have improved significantly in recent years. Importantly, evaluation suggests that investments approved in the wake of the crisis (i.e., at the bottom of the business cycle) will tend to have better development results. Thus, there are also upside opportunities that need to be grasped.

The experience of past crises underlines two key responses by IFC: first, careful portfolio risk management, particularly projects in early implementation; and second, IFC additionality. The latter is particularly important in two respects: i) in acting as an honest broker in restructurings; and, ii) in pursuing a well-timed and targeted approach to new operations, particularly through the signaling effect IFC interventions can provide to other investors.

Knowledge for Development

IFC AS have been growing rapidly, with an active portfolio approaching \$1 billion and employing 1,262 staff, a sevenfold increase in the last seven years. As a result, the nature and face of IFC has changed significantly: AS staff now make up the majority of the Corporation's presence in the field in developing countries.⁵ The rapid growth of AS has happened in a largely unchecked manner. This is well illustrated in the emergence of more than 50 AS products, 18 regional facilities covering seven regions, 13 global business units, and about half of AS work being contracted out to short-term consultants.

Important strategic questions need to be addressed. These include whether, in grafting such a substantial knowledge business onto a financing institution, IFC has the appropriate balance of efforts between AS and Investment Services (IS) to ensure maximum development impact. Quality trade-offs are also possible, given substantial organizational change, a high reliance on relatively new staff (60 percent have been with IFC less than three years), and outsourcing work through some 1,300 short-term consultants each year. There is also increased possibility of conflict of in-

terest or market distortion—where AS is offered together with financing, or is provided at less than market value.

IFC deploys its AS in the pursuit of general objectives that are common with those for IFC investments. These objectives include focusing on frontier markets (including International Development Association, or IDA, countries and frontier regions of non-IDA countries, as well as SMEs and agribusiness), strategic sectors, such as finance, infrastructure, health, and education, and support for environmental and social sustainability (including climate change). The allocation of AS resources has been largely aligned with these priorities. That is, IFC AS has generally targeted high-need destinations, such as IDA countries and Africa in particular.

Relevance, however, does not guarantee impact. Fifty-two percent of IFC's AS projects, where ratings could be assigned, were rated high on achieved development impact. Projects rated substantially higher on other dimensions of performance, such as strategic relevance, output, and outcome achievement, with an overall development effectiveness success rate of 70 percent. Ratings did not change significantly for projects that began before (as opposed to projects initiated after) the major organizational changes in 2005/06. By region, ratings have been substantially better in Southern Europe and Central Asia, and weaker in Latin America and the Caribbean. Evaluated global projects also did not perform well. By business line, while the variation in results is less pronounced than by region, infrastructure, business enabling environment, corporate advice, and access to finance tend to perform better than environmental and social sustainability.

Key drivers of results have been client commitment (as evidenced by contribution to project costs and especially so for environmental and social sustainability projects), strong project design and implementation, IFC's proximity to the client as defined by IFC's local presence and involvement, programmatic (rather than one-off) interventions, and effective M&E. Strong additionality

has been fundamental for achieving results, and has been particularly noticeable among business enabling environment operations in IDA countries with high business climate risk, and in some packages of services, such as SME linkage projects in agribusiness, manufacturing and extractive sectors. Such packaging raises potential conflicts of interest, which must be tackled effectively, and needs appropriate pricing. Intrinsic constraints in capturing the impact of AS are compounded by the relatively weak application of M&E guidelines to date by IFC staff.

Over the last five years, IFC's management has taken action to enhance its AS effectiveness through efforts to strengthen AS organizational alignment and delivery processes. Efforts to bring greater structure and clarity include: categorizing AS activities into five business lines; consolidating some global and regional facilities; classifying products by level of maturity; developing AS staff competencies; AS training; and establishing an AS vice presidency. IFC's attention to the delivery of AS has focused on establishing mechanisms and systems to ensure: adequate, sustainable funding; client commitment; sound project design and implementation; and robust M&E of performance. IFC's efforts in these areas appear to compare favorably with measures taken by other multilateral development banks, for example, in the introduction of a pricing policy (which broadly seeks to build client commitment and reduce possible market distortion by limiting any subsidies to public goods), and an M&E system, which seeks to capture outcomes and impacts, as opposed to just outputs. The momentum of transformation continues with the recent introduction of new policies, procedures, and guidelines related to pricing, conflict of interest, funding, and governance.

The professionalization of AS, however, remains a work in progress and significant organizational issues still persist: overlapping and parallel implementation structures in several regions (Sub-Saharan Africa, East Asia and the Pacific, and South Asia); few well-established products outside of finance and infrastructure; lack of clarity about how AS and IS are best integrated in different

contexts; limited consideration of IFC's comparative advantages relative to other knowledge service providers at the strategic and project levels; and no umbrella AS strategic framework to weave different strands together.

There are also substantial gaps in delivery that need to be addressed—particularly in matching corporate intent with consistent implementation on the ground. This applies with respect to the execution of the pricing policy, as well as ensuring good quality project design and implementation, and effective collaboration with other actors, including the World Bank. Getting the right staffing mix has been a particular challenge, with a heavy reliance on short-term consultants and relatively new staff (as compared to those involved with investment operations). The chosen mix has major implications for the quality and continuity of IFC's AS, and the preservation of global knowledge leadership. At all stages of delivery, M&E data provided by staff and short-term consultants (in particular) has remained unreliable. Relatedly, IFC-commissioned reviews of AS facilities, products and projects, while offering insights into the organization and delivery of AS, have exhibited shortcomings in independence and design.

Charging effectively for IFC's AS is perhaps the most important step going forward. Effectively charging clients for services will introduce a market test for AS and is likely to have a positive impact on all aspects of the business, such as creating incentives for: greater client buy-in, stronger project design and implementation, stronger M&E, development of products that best meet demand, and ensuring IFC additionality. In the immediate term, IFC would need to strictly implement the current pricing policy, which is largely cost-based (i.e., the price the client is expected to pay is a proportion of the cost of the project). Over time, efforts should be made to move to a market value-based approach to pricing, so that IFC does not run the risk of crowding out other knowledge providers. IFC investments are priced according to this principle for the same reason. The current economic crisis, and its likely effects on donor and IFC

funding, is an opportunity for the Corporation to push harder in the direction of value-based pricing, and to encourage other development institutions to do likewise.

Recommendations

This review comes at a time of deep distress in financial markets and a severe downsizing in private economic activities. It reminds us of the critical importance of sustainable development in the private sector, for which regulatory frameworks are important and excessive deregulation costly. In these circumstances, this review provides further findings on what IFC might do to enhance development effectiveness and additionality:

Operations during the Crisis:

- **Effectively manage the tension between protecting the portfolio and responding to opportunities during crisis.** In the past, this tension has not always been managed adequately and IFC has missed opportunities to have a deeper impact. Experience suggests the importance of arrangements to isolate portfolio problems from new business development, to mitigate conflicts of interest that may impede effective collaboration with the World Bank and the IMF, and to establish clear rules of engagement in crisis response, particularly for staff in the field. Experience also indicates the important role IFC and the World Bank Group must play in promoting sound frameworks for prudent financial risk management and safeguards to ensure sustainable private sector development. This is especially relevant today, as the world reexamines the roles of governments and markets in the wake of the financial crisis.

IFC Advisory Services:

- **Set out an overall strategy for IFC AS that addresses the need for a clear vision and business framework, and is closely linked with IFC's global corporate strategy.** Following years of unchecked growth and recent organizational changes, the role of AS in IFC's business model needs to be addressed. The

strategy would need to better articulate IFC comparative advantages in AS, as well as objectives and goals for AS in different contexts (a source of confusion among staff), and to consider the best staffing combinations (internal or external, global or local staff), delivery unit organization, incentives, and performance measures to help realize these objectives and goals.

- **Pursue more programmatic AS interventions.** Evaluation shows that IFC has achieved better results in AS projects that have been carried out in conjunction with other AS interventions. One-off activities have been less effective. However, programmatic efforts of this kind have been in the minority (about a fifth of all AS projects), and IFC should accordingly seek to expand this type of intervention.

- **Improve execution of the AS pricing policy through greater client contributions.**

Over the longer term, it would be important to seek client contributions that reflect value and impact (i.e., not just cost) to create a true test of client demand, to promote incentives for better AS delivery, and to ensure IFC is being additional.

- **Strengthen AS performance measurement and internal knowledge management.** In the short term, it would be important to have more hands-on M&E support in the field, post-project completion follow-up, better lessons-capture (including from dropped or terminated projects), and more arms-length

facility, product, and project reviews. In the medium term, it would pay to introduce an Expanded Project Completion Report system (akin to the Expanded Project Supervision Report system for investment operations, and carried out later than the Project Completion Report to better capture impacts), more programmatic impact evaluation and impact research, the setting of results-based targets for AS in its corporate scorecard, and regular benchmarking of IFC AS activities and systems with other providers of knowledge services, including other multilateral development banks and commercial providers. In the longer term, the aim could be to establish a specialized research unit focused on generating and bringing together private sector development knowledge work.

This report was reviewed by an advisory panel of international experts in the area of knowledge and development. Panel members were: Carl Dahlman, Luce Associate Professor of International Relations and Information Technology, Georgetown University School of Foreign Service; Acha Leke, Partner, McKinsey & Company; and Laurence Prusak, founder and former Director, Institute for Knowledge Management. In a joint statement, included in this publication, the panel agreed with the above recommendations, and suggested additional steps IFC may take in the same direction.



Résumé analytique

Nombre de pays en développement ont connu ces dix dernières années une forte croissance économique, généralement accompagnée d'un recul de la pauvreté. Le secteur privé a apporté un concours crucial à cette croissance, essentiellement par de nouveaux investissements en capital, mais aussi par l'innovation et la création d'entreprises, qui ont contribué à créer des emplois et à ouvrir de nouveaux marchés.

Les pays en développement où l'investissement privé a été le plus important et ceux qui ont le mieux réussi à réduire les écarts de savoirs et de technologies avec les pays développés — de l'Inde aux pays baltes — sont généralement ceux où la croissance a été le plus rapide.

La crise financière mondiale actuelle fait peser une grave menace sur une bonne part de ces progrès durement acquis. Elle a commencé dans les pays développés, mais s'est étendue ensuite aux pays en développement, et a touché particulièrement ceux dont l'économie était le plus étroitement liée aux marchés mondiaux. La demande d'importations des pays développés recule, et les entreprises des pays en développement, grandes et petites (ces dernières surtout), ont constaté aussi qu'il n'y avait plus de fonds pour de nouveaux investissements, ou qu'ils étaient devenus beaucoup plus coûteux et plus difficiles à obtenir. On s'attend à ce que les courants de capitaux privés vers les pays en développement n'atteignent au mieux en 2009 que la moitié environ du volume qu'ils avaient enregistré en 2007 (qui était de 1 000 milliards de dollars). L'expérience des crises passées donne à penser qu'il faudra probablement plusieurs années avant que ces courants retrouvent leur niveau d'avant la crise. Plus généralement, la crise a porté

les décideurs et les analystes à réévaluer le rôle des marchés et du secteur privé, surtout là où la valeur d'une réglementation, d'un contrôle prudentiel et d'une gestion fiduciaire efficaces avait à tort été déconsidérée ou ignorée.

Ce sont des moments où le rôle double de l'IFC, à la fois prestataire de financement et de savoirs (conjointement avec la Banque mondiale) revêt une importance particulière. Son premier rôle, celui de bailleur de fonds, est inscrit dans ses statuts, qui stipulent que l'IFC doit investir dans des projets viables du secteur privé dans les pays en développement « lorsqu'il n'est pas possible de se procurer à des conditions raisonnables les capitaux privés nécessaires ».¹ En temps de crise, comme maintenant, il appartient à la Société de développer ses efforts de financement. Mais elle assume aussi (avec la Banque mondiale) un rôle important de prestataire de savoirs, surtout lorsque les décideurs et les administrateurs mettent l'accent sur la réglementation des affaires, la bonne gouvernance, et la viabilité environnementale et sociale de la croissance. Ce rôle suppose que la Société offre des avis qui contribuent à la définition de conditions favorables au développement durable du secteur privé — encourageant par exemple une réglementation plus

efficace — et à améliorer les capacités, les compétences et le comportement des acteurs dont dépendent sur le terrain les entreprises du secteur privé (y compris à faire gérer plus efficacement les effets sociaux et environnementaux des activités privées).

Dans la présente évaluation indépendante des résultats obtenus par l'IFC au plan du développement, chacun de ces deux rôles est examiné tour à tour : l'efficacité avec laquelle la Société finance le développement avec son portefeuille de plus en plus important des opérations d'investissement, l'accent étant mis en particulier sur l'expérience de l'institution au cours de crises antérieures et sur l'aide qu'elle apporte aux clients pour atténuer les risques de l'investissement (Première partie) ; et l'expérience de la Société pour ce qui est d'organiser et d'exécuter ses interventions de services-conseil — les services que l'IFC fournit à des sociétés privées ou à des gouvernements dans le domaine du savoir pour soutenir le développement du secteur privé (Deuxième partie) ; ce deuxième aspect étant traité pour la première fois, il constitue le thème principal du rapport. S'agissant des résultats, le rapport est consacré aux opérations d'investissement de l'IFC atteignant leur régime de croisière entre 2006 et 2008 et aux projets de services-conseil de l'IFC pour lesquels les rapports d'achèvement datent de la même période. L'examen de l'efficacité des services-conseil est assorti de mises en garde, car le système de suivi et d'évaluation n'a été introduit qu'en 2006, et le transfert des savoirs est souvent de nature intangible. Le rapport n'en offre pas moins, pour la première fois, un tableau des deux volets d'activité de l'IFC (investissement et services-conseil), y compris pour les situations où les deux activités ont été offertes au même client. Il vient aussi en complément d'une évaluation récente du Groupe d'évaluation indépendante (IEG) portant sur l'efficacité des études sectorielles et économiques et de l'assistance technique de la Banque mondiale, achevée en 2008.²

Financement du développement

Le portefeuille des opérations d'investissement de l'IFC (prêts, prises de participation, et autres produits financiers) a continué à se développer l'an

dernier. Le volume cumulé des investissements actifs a augmenté d'un quart environ, passant de 32,7 milliards de dollars pour l'exercice 07 à 40 milliards de dollars pour l'exercice 08. Le nombre des investissements n'a pas connu un accroissement du même ordre (8 %), ce qui traduit une préférence générale pour les opérations d'investissement importantes (le financement des entreprises prenant de plus en plus le pas sur le financement des projets), et une démarche plus globale atteignant les petites et moyennes entreprises (PME) par le biais d'intermédiaires financiers et d'entreprises plus importantes.

Le développement du portefeuille offre des possibilités d'étendre le rayon d'action de la Société au service du développement. Les évaluations réalisées par l'IEG des opérations d'investissement ayant atteint leur régime de croisière entre 2006 et 2008³ font apparaître globalement une amélioration des résultats pour le développement des projets de l'IFC. Pour être plus précis, 72 % des projets évalués (soit 85 % en volume) ont abouti à des réalisations qui, tout bien considéré, ont atteint ou dépassé les valeurs de référence et les normes financières, économiques, environnementales et sociales du projet, et concouru utilement au développement du secteur privé par-delà le projet proprement dit. Ce pourcentage de projets aboutissant à des réalisations de haut niveau n'était en 2005–2007 que de 63 % (75 % en volume). Si on prend les pourcentages cumulés — les évaluations indépendantes ayant commencé en 1996 et allant jusqu'à 2008 compris — 62 % des projets (70 % en volume) ont obtenu des appréciations élevées pour leur effet sur le développement.

Si les résultats sont globalement plus satisfaisants dans les premières et les dernières années de la période considérée, cela tient à plusieurs facteurs : i) la fin d'une cohorte de projets aux résultats particulièrement médiocres parvenus à leur régime de croisière en 2005 (51 % de ces derniers projets ont abouti à des réalisations de haute qualité, contre 75 % de ceux atteignant leur régime de croisière en 2008) ; ii) des conditions économiques plus favorables dans une bonne partie des pays en développement (jus-

qu'aux derniers mois de 2008, moment où pour l'essentiel la plupart des projets évalués avaient été exécutés) ; iii) une amélioration de l'évaluation préalable et de la structuration des projets de l'IFC ; iv) la préférence délibérément donnée par l'IFC aux projets de plus grande ampleur, qui ont une meilleure probabilité d'obtenir une haute appréciation que les petits, en partie parce qu'ils sont suivis de plus près par la Société ; et v) des résultats particulièrement satisfaisants en Europe et en Asie centrale, et dans la région Amérique latine et Caraïbes, où se trouvent la majorité des opérations ayant atteint leur régime de croisière. Dans ces régions, le climat a été particulièrement favorable aux entreprises, et la qualité des activités de l'IFC a été la plus élevée. Les résultats de la région Asie du Sud s'améliorent, la qualité des activités de la Société y étant plus élevée que par le passé.

Les résultats ont été beaucoup moins bons dans les pays d'Asie de l'Est et du Pacifique et dans les régions Moyen-Orient et Afrique du Nord et Afrique subsaharienne, qui comptent principalement des pays à revenu faible ; dans ces régions, la moitié à peine des projets a atteint ou dépassé les valeurs de référence et les normes spécifiées. Les conditions externes en ont été en partie la cause, les projets en Afrique subsaharienne et dans la région Moyen-Orient et Afrique du Nord étaient généralement caractérisés par des niveaux élevés de risques (pays, entité parrainante et compétitivité des produits) — mais, dans l'ensemble c'est la qualité des activités de l'IFC et son concours au projet qui ont eu un impact plus marqué. C'est particulièrement vrai de la région Asie de l'Est et Pacifique, où dans près de 40 % des projets la valeur ajoutée par l'IFC a été insuffisante. Des éléments permettent de penser que le tri et l'évaluation préalable des projets ont été meilleurs dans la région Moyen-Orient et Afrique du Nord, et que la qualité de l'encadrement s'est améliorée en Afrique subsaharienne.

Parmi les secteurs stratégiques de l'IFC, les résultats des projets ont continué à s'améliorer dans le domaine de la santé et celui de l'éducation, se sont améliorés dans celui des agro-industries, et sont restés de bonne qualité dans

celui de l'infrastructure et celui des marchés financiers. Mais, ils n'ont pas été à la hauteur pour les technologies de l'information autres que les télécommunications (logiciels et Internet).⁴ Dans les autres secteurs, les projets visant le pétrole, le gaz, les industries extractives et chimiques ont obtenu des résultats plutôt médiocres. L'exposition au risque a manifestement joué pour la faiblesse des résultats des projets informatiques autres que de télécommunications, qui étaient pour la plupart de petites opérations avec des entités parrainantes inexpérimentées et une compétitivité mal définie des produits. Mais la qualité du travail dans ce secteur est également très en-dessous de la moyenne : elle n'a été jugée élevée que dans 40 % tout juste des cas. L'amélioration de la qualité du travail est nette dans le secteur de la santé, où l'IFC a montré qu'elle avait tiré les enseignements de son expérience passée, mais le portefeuille ne s'était guère diversifié. Les projets visant le pétrole, le gaz, les industries extractives et chimiques n'ont pas atteint les valeurs de référence pour différentes raisons : lacunes techniques de l'entité parrainante ; coûts d'acquisition d'avoirs plus élevés que prévu ; et, dans un cas, mauvais respect des règles environnementales. Les notes obtenues pour les effets environnementaux et sociaux sont stables pour les projets physiques, mais restent faibles pour les opérations d'intermédiation financière, signe qu'il faut renforcer les capacités des clients et s'assurer de leur engagement et qu'il faut aussi remédier aux insuffisances aux plans de la supervision et de la valeur ajoutée par la Société.

Les résultats de dont on vient de faire état ne portent pas encore la marque de la grave détérioration de la situation économique mondiale, dont les effets commencent seulement à se faire sentir sur les retours sur investissement dans la plupart des pays en développement. Les résultats de développement indiqués ici renvoient pour l'essentiel à des projets réalisés entre 2003 et 2008, période pendant laquelle les marchés émergents ont connu une croissance sans précédent. La plupart des projets évalués avaient été réalisés pour l'essentiel, et certains étaient clos avant la fin de 2008, moment où la crise a commencé de se faire sentir dans les pays en développement.

On s'attend toutefois à ce que les résultats des opérations atteignant leur régime de croisière soient moins bons au cours des années à venir. Les évaluations antérieures montrent que les projets approuvés dans les années précédant une crise (et exécutés en période de contraction de l'économie) sont ceux qui sont les plus exposés au risque du point de vue du développement. Environ 40 % du portefeuille de projets de la Société (62 % en volume) relèvent de cette catégorie, et l'IFC est donc exposée à un risque considérable à cet égard. Mais, il faut voir aussi qu'elle a notablement renforcé ses procédures internes de gestion des risques et que sa capacité de supporter et de gérer les risques financiers semble s'être bien améliorée ces dernières années. L'évaluation donne à penser, ce qui est important, que les investissements approuvés tout de suite après la crise (c'est-à-dire quand la conjoncture est au plus bas) donnent généralement de meilleurs résultats au plan du développement. Il existe donc des opportunités qu'il faut savoir saisir.

L'expérience des crises passées souligne l'importance pour la Société de jouer principalement sur deux tableaux : premièrement, la gestion prudente des risques du portefeuille, particulièrement des projets en début d'exécution ; et deuxièmement, la valeur ajoutée de l'institution. Ce deuxième aspect est particulièrement important à deux égards : i) en jouant le rôle d'intermédiaire impartial dans les restructurations ; et ii) en choisissant avec soin la cible et le moment de ses interventions, la Société envoie en effet un signal fort aux autres investisseurs.

Le savoir au service du développement

Les services-conseil de la Société ont connu une croissance rapide, avec un portefeuille actif proche de 1 milliard de dollars et un personnel de 1 262 agents, soit sept fois plus qu'il y a sept ans. Cette évolution a fortement modifié la nature et la représentation de l'IFC : dans les pays en développement, le personnel des services-conseil forme désormais l'essentiel des effectifs de la Société sur le terrain.⁵ Pratiquement aucune limite n'a été imposée à cette croissance rapide. Cela apparaît clairement quand on constate qu'il y a plus de 50 produits des services-conseil, 18 centres régionaux

répartis entre sept régions et 13 services économiques mondiaux, et que la moitié à peu près des activités de services-conseil sont confiées à des consultants à court terme.

En conséquence, des questions stratégiques importantes se posent. On peut se demander en particulier si, greffant une activité de savoir aussi importante sur une institution financière, la Société parvient à l'équilibre voulu entre services-conseil et services d'investissement pour obtenir l'impact maximum sur le développement. Il est possible aussi que la recherche de qualité ait été un peu sacrifiée, les modifications organisationnelles ayant été notables, le personnel relativement nouveau (60 % des effectifs ont moins de trois ans d'ancienneté à l'IFC) étant fortement sollicité, et des activités étant externalisées chaque année à quelque 1 300 consultants à court terme. Il existe aussi une possibilité accrue de conflit d'intérêt ou de distorsion du marché, lorsque les services-conseil sont offerts avec le financement, ou fournis à un prix inférieur à celui du marché.

La Société assure ses services-conseil pour atteindre des objectifs généraux qui sont communs aux services-conseil et aux investissements de l'IFC. Il s'agit notamment de concentrer les interventions sur les marchés pionniers (dont les pays bénéficiant d'un financement de l'IDA et les régions pionnières d'autres pays, ainsi que les PME et les agro-industries), sur les secteurs stratégiques — finances, infrastructure, santé et éducation — et sur l'appui à la viabilité environnementale et sociale (changements climatiques compris). L'affectation des ressources de services-conseil a été pour l'essentiel alignée sur ces priorités. Autrement dit, les services-conseil ont généralement été ciblés sur les destinations où les besoins sont aigus, pays bénéficiant d'un financement de l'IDA et Afrique en particulier.

Mais la pertinence des choix n'est pas une garantie d'impact. En ce qui concerne l'impact sur le développement, 52 % des projets de services-conseil de l'IFC, parmi ceux qui pouvaient être notés, ont obtenu une note élevée. Les appréciations ont été nettement plus élevées pour d'autres aspects des résultats, tels que la pertinence stratégique,

les produits, et l'obtention de réalisations, l'efficacité globale pour le développement étant bonne dans 70 % des cas. Les appréciations n'ont pas été très différentes pour les projets démarrés avant (plutôt qu'après) les grands changements organisationnels de 2005/2006. Par région, les appréciations ont été nettement meilleures pour l'Europe du Sud et l'Asie centrale, et moins bonnes pour l'Amérique latine et les Caraïbes. Les projets mondiaux évalués n'avaient pas non plus eu de bons résultats. Par catégorie d'activités, les variations étant toutefois moins prononcées qu'entre régions, les projets visant l'infrastructure, le climat favorable aux entreprises, les conseils aux entreprises et l'accès à des financements avaient eu dans l'ensemble de meilleurs résultats que ceux visant la viabilité environnementale et sociale.

Les facteurs déterminant les résultats ont été l'engagement des clients (manifesté par la contribution aux coûts des projets, en particulier pour les projets visant la viabilité environnementale et sociale), une conception et une exécution adéquate des projets, la proximité de l'IFC par rapport au client (définie par la présence locale et l'implication de la Société), le caractère programmatique (et non pas ponctuel) des interventions, et l'efficacité du suivi et de l'évaluation. La forte valeur ajoutée par l'IFC a joué un rôle fondamental pour l'obtention de résultats, ce qui a été particulièrement facile à constater dans les activités visant un climat favorable dans les pays IDA où le risque lié aux conditions économiques est élevé, et dans certains ensembles de services, tels que les projets d'établissement de liens avec les PME dans l'agro-industrie, les industries manufacturières et extractives. La constitution de ce type d'ensembles peut donner lieu à des conflits d'intérêt, auxquels il importe de bien parer, et le prix en est à établir soigneusement. Les difficultés que l'on rencontre toujours pour mesurer l'impact des services-conseil sont encore accrues par le fait que jusqu'à présent, le personnel de l'IFC n'a pas appliqué très strictement les directives de suivi et d'évaluation.

Au cours des cinq dernières années, la direction de l'IFC a pris des mesures pour renforcer l'efficacité des services-conseil de la Société, cher-

chant à en améliorer l'alignement organisationnel et les modes d'exécution. On a cherché ces dernières années à mieux structurer les services-conseil et à les rendre plus clairs, notamment par les mesures suivantes : répartition des activités de services-conseil en cinq catégories ; fusion de certains mécanismes mondiaux et régionaux ; classification des produits par degré de maturité ; valorisation des compétences du personnel des services-conseil ; formation aux services-conseil ; création d'une vice-présidence pour les services-conseil. S'agissant de l'exécution de ces services, la Société s'est efforcée de mettre en place des dispositifs et des systèmes garantissant : un financement suffisant et viable ; l'engagement des clients ; une conception et une bonne exécution des projets ; un suivi et une évaluation robustes des résultats. Ce que l'IFC a fait en ce sens semble soutenir favorablement la comparaison avec les mesures prises par d'autres banques multilatérales de développement, par exemple en ce qui concerne l'introduction de politiques de fixation des prix (qui, de manière générale, visent à développer l'engagement des clients, et à réduire les risques de distorsion du marché, en limitant les subventions aux biens publics), et d'un système de suivi et d'évaluation qui permette de mesurer les issues et les impacts plutôt que les seuls produits. Le mouvement de transformation se poursuit, de nouvelles politiques, procédures et directives ayant récemment été introduites relativement à la fixation des prix, aux conflits d'intérêt, au financement et à la gouvernance.

Mais on n'a pas fini de donner un caractère plus professionnel aux services-conseil, et des problèmes organisationnels notables persistent : structures d'exécution parallèles ou qui se chevauchent dans plusieurs régions (Afrique subsaharienne, Asie de l'Est et Pacifique, Asie du Sud) ; peu de produits bien établis en dehors de la finance et de l'infrastructure ; manque de précision sur la meilleure manière d'intégrer services-conseil et services d'investissement dans différents contextes ; peu de prise en compte des avantages comparatifs de l'IFC par rapport à d'autres prestataires de services dans le domaine du savoir, à l'échelon stratégique et à celui des projets ; et manque de cadre stratégique global coiffant les

services-conseil et permettant de combiner harmonieusement différents axes d'activité.

On observe aussi des déficiences dans certains domaines, dont il faudra se préoccuper, surtout si l'on veut que les résultats obtenus sur le terrain reflètent bien le but recherché par l'institution. Cette considération s'applique à l'application des politiques de fixation des prix autant qu'à la qualité de la conception et de l'exécution des projets, et à une bonne collaboration avec les autres acteurs, dont la Banque mondiale. Le dosage judicieux du personnel a donné beaucoup de mal, du fait qu'une bonne part des activités est confiée à des consultants à court terme, et à des membres relativement nouveaux du personnel (si on les compare à ceux qui s'occupent des investissements). La combinaison choisie retentit fortement sur la qualité et la continuité des services-conseil de l'IFC, et sur le maintien de sa position de pointe en matière de savoirs. À tous les stades de l'exécution, les données de suivi et d'évaluation communiquées par le personnel et les consultants à court terme (surtout) sont restées peu fiables. De même, les examens par l'IFC de ses mécanismes, produits et projets de services-conseil, s'ils ont livré des idées sur l'organisation et l'exécution des services-conseil, ont manqué d'indépendance et la conception n'en a pas été entièrement satisfaisante.

L'étape suivante la plus importante pour progresser est peut-être d'arriver à fixer le bon prix pour les services-conseil de l'IFC. En facturant convenablement les services aux clients, on soumettra les services-conseil de la Société à un test de marché, et on obtiendra très probablement un impact favorable sur tous les aspects des interventions : en incitant les clients à davantage s'investir dans les projets, en améliorant la conception et l'exécution des projets, en renforçant le suivi et l'évaluation, en définissant des produits qui répondent mieux à la demande, et veillant à ce qu' l'IFC offre une valeur ajoutée. Dans l'immédiat, la Société aura à appliquer strictement les politiques de prix en vigueur, qui sont pour l'essentiel basées sur les coûts (le prix que le client est appelé à payer est proportionnel aux coûts du projet). À plus long terme, il faudra chercher à fixer les prix en

fonction du marché, afin que l'IFC ne risque pas d'évincer les autres prestataires de savoirs. C'est pour la même raison que le prix des investissements de l'IFC est fixé selon ce principe. La crise économique actuelle, et les effets qu'elle aura probablement sur le financement des donateurs et celui de l'IFC, donnent à la Société l'occasion de chercher plus énergiquement à fixer les prix en fonction de la valeur, et d'encourager les autres institutions de développement à faire de même.

Recommandations

L'évaluation présentée ici vient à un moment de profonde crise des marchés financiers, et de contraction grave des activités économiques privées. Elle nous rappelle l'importance cruciale d'un développement durable du secteur privé, pour lequel des dispositifs réglementaires sont indispensables, la déréglementation excessive se payant fort cher. Dans ces circonstances, on avance ici d'autres recommandations que l'IFC pourrait suivre pour améliorer son efficacité pour le développement et sa valeur ajoutée :

Opérations pendant la crise :

- **Bien gérer la tension entre la protection du portefeuille et le parti à tirer des opportunités en temps de crise.** Cette tension n'a pas toujours été bien gérée par le passé, et la Société n'a pas tiré parti d'occasions d'approfondir son impact. L'expérience donne à penser qu'il est important de faire la distinction entre les problèmes des opérations en portefeuille et les nouveaux projets, d'atténuer les conflits d'intérêt qui peuvent empêcher de collaborer utilement avec la Banque mondiale et le FMI, et de définir clairement les domaines d'intervention face à la crise, en particulier pour le personnel sur le terrain. Elle indique aussi qu'il appartient à l'IFC et au Groupe de la Banque mondiale d'assumer un rôle important en faveur de dispositifs bien pensés de gestion prudente des risques financiers, et de garanties protégeant le développement durable du secteur privé. Ces considérations sont particulièrement pertinentes à l'heure actuelle, au moment où la crise financière fait repenser dans le monde le rôle des gouvernements et celui des marchés.

Rôle de l'IFC pour les services-conseil :

- **Définir une stratégie globale pour les services-conseil de l'IFC, répondant à la nécessité d'une perspective et d'un schéma d'activité clairs, et en liaison étroite avec la stratégie d'ensemble de la Société.** Après des années de croissance incontrôlée et à la suite des transformations organisationnelles récentes, il est temps de réfléchir au rôle que jouent les services-conseil dans le modèle d'activité de l'IFC. Cette stratégie devra mieux préciser les avantages comparatifs de la Société en matière de services-conseil, les buts et objectifs poursuivis par ces services dans différents contextes (qui donnent lieu à des incertitudes pour le personnel), et donner des indications sur les meilleures combinaisons de personnel (personnel interne/personnel extérieur, personnel mondial/personnel local), sur l'organisation des services chargés de l'exécution, sur les moyens d'incitation et d'évaluation des résultats, afin d'aider à atteindre ces buts et objectifs.
- **Remplacer les interventions des services-conseil dans une approche programme.** L'évaluation montre que l'IFC a obtenu de meilleurs résultats avec les projets de services-conseil réalisés conjointement à d'autres interventions de services-conseil. Les projets autonomes ont eu moins d'efficacité. Pourtant les projets inscrits dans un programme sont moins nombreux (le cinquième environ de l'ensemble des projets de conseil), et la Société devrait donc chercher à développer ce type d'intervention.
- **Améliorer l'application des politiques de fixation des prix des services-conseil.** À plus long terme, il serait important d'obtenir des clients qu'ils évaluent les interventions en termes de valeur et d'impact (et non pas seulement de coûts), ce qui permettrait de mieux cerner la demande et de créer de meilleures incitations pour la prestation de services-conseil, et qui garantirait la valeur ajoutée des interventions de l'IFC.
- **Renforcer l'évaluation des résultats des services-conseil et la gestion du savoir**

en interne. À court terme, il importe d'avoir un appui plus concret de suivi et d'évaluation sur le terrain, d'assurer le suivi après l'achèvement des projets, de tirer les enseignements des projets abandonnés ou éliminés, et d'assurer un examen indépendant des mécanismes, des produits et des projets par des entités qui en soient plus éloignées. À moyen terme, il serait utile de mettre en place un système de rapports étendus d'achèvement de projet (XPCR) (semblable au système de rapports étendus de supervision de projets — système XPSR — mis en place pour les opérations d'investissement, les rapports étant réalisés après les rapports d'achèvement de projets afin de mieux cerner les impacts), d'évaluer les impacts et de mener la recherche sur ces derniers selon une approche-programme, de fixer aux services-conseils des objectifs axés sur les résultats dans sa fiche de réalisations, et de jauger régulièrement les activités et les systèmes de services-conseil de l'IFC par rapport à d'autres prestataires de services dans le domaine du savoir, dont les autres banques multilatérales de développement et les sociétés commerciales. À plus long terme, on pourrait songer à créer un service de recherches spécialisées qui s'occuperait de susciter et de réunir des travaux sur les savoirs relatifs au développement du secteur privé.

Le rapport qui suit a été revu par un Groupe consultatif de spécialistes internationaux du savoir au service du développement. Les membres en étaient le professeur Carl Dahlman, Luce, professeur adjoint (Relations internationales et technologie de l'information) à la School of Foreign Service de Georgetown University ; Acha Leke, Partenaire du cabinet McKinsey & Company ; et Laurence Prusak, fondateur et ancien directeur de l'Institute for Knowledge Management. Dans une déclaration conjointe, figurant dans la présente publication, le groupe a souscrit aux recommandations énoncées plus haut, et suggéré d'autres mesures allant dans le même sens que pourrait prendre l'IFC.



Resumen ejecutivo

En la última década, muchos países en desarrollo experimentaron un vigoroso crecimiento económico, en general acompañado por la disminución de los niveles de pobreza. El sector privado contribuyó en forma decisiva a ese crecimiento, principalmente a través de nuevas inversiones de capital, pero también de innovaciones y espíritu empresarial, contribuyendo a crear puestos de trabajo y abrir nuevos mercados.

En general, el crecimiento más acelerado se dio en los países en desarrollo que registran los más altos niveles de inversión privada y en que se ha logrado cerrar en mayor medida los vacíos de conocimientos y tecnología que los separan del mundo desarrollado. India y los Estados bálticos son ejemplos al respecto.

La actual crisis financiera mundial amenaza gravemente muchos de esos logros, arduamente alcanzados. La crisis se inició en el mundo desarrollado, pero desde entonces se ha propagado al mundo en desarrollo, y ha afectado especialmente a los países cuyas economías están más estrechamente vinculadas con los mercados mundiales. La demanda de importación proveniente de los países desarrollados está disminuyendo, y en los países en desarrollo grandes y pequeñas compañías (especialmente estas últimas) también se han visto confrontadas con el agotamiento del financiamiento para nuevas inversiones, o con un muy pronunciado aumento del costo de este último y una mayor dificultad para obtenerlo. Según se prevé, en 2009 la afluencia de capital privado a los países en desarrollo alcanzará a lo sumo un nivel de alrededor de la mitad del de 2007 (US\$1 billón). Las crisis anteriores llevan a pensar que pueden tener que transcurrir algunos años

antes de que esas corrientes vuelvan a alcanzar sus niveles anteriores a la crisis. Ésta, en forma más general, ha llevado a los responsables de políticas y a los analistas a revisar sus conceptos sobre el papel de los mercados y el sector privado, especialmente en los casos en que se incurrió en el error de dejar de hacer hincapié en la importancia de una reglamentación, supervisión prudencial y administración fiduciaria eficaces, o no se tuvo en cuenta esa importancia.

En épocas como la actual asume especial importancia la doble función de la IFC como fuente de financiamiento y como proveedora de conocimientos (junto con el Banco Mundial). Con respecto al primero de esos cometidos, el Convenio Constitutivo de la IFC establece que la Corporación debe invertir en proyectos viables para el sector privado en los países en desarrollo para los cuales ‘el capital privado suficiente no se encuentre disponible en condiciones razonables’.¹ En esas épocas de crisis, la carga de incrementar el financiamiento recae sobre la IFC, pero ésta (junto con el Banco Mundial) también cumple un papel importante como proveedora de conocimientos, en especial en un período en que los responsables de políticas y los administradores centran la atención en la reglamentación de los

negocios, una buena gestión y la sostenibilidad ambiental y social del crecimiento. Esta función implica el suministro de una asistencia que contribuya a dar forma a las condiciones apropiadas para un desarrollo sostenible del sector privado —por ejemplo, promoviendo una reglamentación más eficaz— y tienda a reforzar la capacidad, las aptitudes y el proceder de los actores que realizan actividades conjuntas sobre el terreno con las empresas del sector privado (aspecto que comprende un eficaz manejo de los efectos sociales y ambientales de las actividades privadas).

En la presente Evaluación Independiente de los Resultados de Desarrollo (IEDR, por sus siglas en inglés) de la IFC se examinan sucesivamente esas funciones: la eficacia de la IFC en cuanto a financiamiento del desarrollo a través de su creciente cartera de operaciones de inversión, haciendo hincapié en la experiencia lograda por la Corporación en crisis anteriores y ayudando a los clientes a mitigar los riesgos de la inversión (parte I), y, por primera vez, y por lo tanto como tema principal del presente informe, la experiencia adquirida por la Corporación en la organización y ejecución de sus intervenciones en materia de servicios de asesoría (SA), que consisten en servicios de conocimiento que la IFC proporciona a compañías privadas o gobiernos para respaldar el desarrollo del sector privado (parte II). En cuanto a resultados, en el informe se examinan las operaciones de inversión de la IFC que llegaron a su vencimiento operativo anticipado entre 2006 y 2008, y los proyectos de servicios de asesoría dispensados por la IFC en el mismo período con informes de terminación de proyectos. Con respecto al examen de la eficacia en términos de desarrollo de los servicios de asesoría se formulan ciertas advertencias, dado que el sistema de seguimiento y evaluación recién se introdujo en 2006, y habida cuenta del carácter a menudo intangible de la transmisión de conocimientos. No obstante, el informe presenta por primera vez una reseña coordinada de ambos brazos de las actividades de la IFC (inversiones y servicios de asesoría), incluidas situaciones en que esos instrumentos se ofrecieron al mismo cliente. En el informe también se complementa una reciente evaluación del Grupo de Evaluación Independiente

(IEG, por sus siglas en inglés), completada en 2008, sobre la eficacia de los estudios económicos y sectoriales y la asistencia técnica del Banco Mundial.²

Financiamiento para el desarrollo

La cartera de operaciones de inversión de la IFC (préstamos, inversiones de capital y otros productos financieros) siguió aumentando el año pasado. El volumen acumulativo de las actividades de inversión activas aumentó alrededor de un 25% —de US\$32.700 millones a US\$40.000 millones— entre los ejercicios de 2007 y 2008. El número de inversiones aumentó en menor proporción (un 8%), lo que refleja una preferencia general por operaciones de inversión de mayor porte (orientadas cada vez más a financiamiento institucional, en lugar de financiamiento para proyectos), y con un enfoque más “mayorista” para llegar a pequeñas y medianas empresas (es decir, a través de intermediarios financieros y compañías más grandes).

Una cartera creciente brinda oportunidades para ampliar el horizonte de desarrollo de la Corporación. Las evaluaciones del IEG sobre las operaciones de inversión que llegaron a su vencimiento operativo anticipado entre 2006 y 2008³ muestran una mejora global de los resultados en términos de desarrollo de los proyectos de la IFC. Más concretamente, el 72% de los proyectos evaluados (el 85% por volumen) lograron resultados que en términos generales cumplieron o excedieron los parámetros e indicadores de referencia financieros, económicos, ambientales y sociales de los proyectos, y realizaron contribuciones positivas al desarrollo del sector privado más allá del proyecto. En comparación, en 2005–07 el 63% de los proyectos (el 75% por volumen) lograron buenos resultados. En cifras acumulativas, como la evaluación independiente se inició en 1996 y llegó a 2008 inclusive, el 62% de los proyectos (el 70% por volumen) lograron buenas calificaciones de cuanto a resultados en términos de desarrollo.

Los resultados globales más satisfactorios logrados en los años más distantes obedecieron a varios factores: i) la salida de una cohorte de desempeño especialmente inadecuado de proyectos que

alcanzaron su madurez en 2005 (el 51% de los proyectos en proceso de maduración en 2005 lograron buenos resultados en términos de desarrollo, en comparación con el 75% en proceso de maduración en 2008); ii) condiciones económicas más favorables en gran parte del mundo en desarrollo (hasta fines de 2008, en que la mayoría de los proyectos evaluados se habían ejecutado en considerable medida); iii) mejoras en cuanto a calidad de la evaluación inicial y estructuración de los proyectos de la IFC; iv) deliberada orientación de la IFC hacia proyectos de mayor escala, con mayor probabilidad de alcanzar altas calificaciones que los proyectos más pequeños, en parte debido a una más severa fiscalización interna, y v) desempeño especialmente sólido en Europa y Asia central, y en América Latina y el Caribe, en que se realiza la mayoría de las operaciones que han madurado. En esas regiones las condiciones para los negocios son más propicias, y es más sólida la calidad del trabajo de la IFC. En Asia meridional hubo mejoras en cuanto a desempeño y calidad del trabajo de la IFC.

Estuvo considerablemente a la zaga la región de Asia oriental y el Pacífico; lo propio aconteció con las regiones de Oriente Medio y Norte de África, y África al sur del Sahara, cuyos países son principalmente de ingreso bajo. Apenas la mitad de los proyectos ejecutados en esas regiones alcanzaron o superaron los parámetros e indicadores de referencia especificados, lo que obedeció en parte a condiciones externas, ya que los proyectos realizados en las regiones de África al sur del Sahara y Oriente Medio y Norte de África en general presentaron altos niveles de riesgo de país, de patrocinador y de competitividad de productos, pero la calidad del trabajo y la contribución de la IFC a los proyectos tendieron a suscitar mayores impactos. Así sucedió en especial en Asia oriental y el Pacífico, en que casi el 40% de los proyectos alcanzaron bajos niveles en cuanto a calidad de la adicionalidad de la IFC. Se ha comprobado un mejor trabajo de selección y evaluación inicial en Oriente Medio y Norte de África, y mejor calidad de la supervisión en África al sur del Sahara.

En los sectores estratégicos de la IFC, el desempeño de los proyectos siguió mejorando en salud

y educación; mejoró en agroindustrias, y siguió siendo vigoroso en infraestructura y mercados financieros. En tecnología de la información no relacionada con telecomunicaciones (software e Internet) el desempeño fue menos satisfactorio.⁴ En otros sectores —petróleo, gas, minería y productos químicos— los proyectos alcanzaron calificaciones relativamente insatisfactorias. Evidentemente el riesgo explica en parte los resultados inadecuados de los proyectos de tecnología de la información no relacionada con telecomunicaciones, la mayoría de los cuales consistieron en pequeñas operaciones con patrocinadores no experimentados y falta de claridad en cuanto a competitividad de productos. No obstante, la calidad del trabajo realizado en ese sector fue también francamente inferior a la par, ya que sólo fue elevada en el 40% de los casos. La calidad del trabajo mejoró manifiestamente en el sector de la salud, en que la IFC dio muestras de haber asimilado la experiencia del pasado, aunque poco se logró en cuanto a diversificación de la cartera. Varios factores impidieron que los proyectos de petróleo, gas, minería y productos químicos alcanzaran los indicadores de referencia: fallas técnicas de los patrocinadores; costo de adquisición de activos mayor del previsto, y un caso de cumplimiento insatisfactorio de normas ambientales. Las calificaciones de efectos ambientales y sociales fueron estables para los proyectos del sector real, pero siguieron siendo insatisfactorias en las operaciones para intermediarios financieros, lo que refleja la necesidad de fortalecer la capacidad de los clientes y lograr su identificación con los proyectos, y de hacer frente a las fallas de supervisión y adicionalidad de la IFC.

Los resultados en términos de desarrollo arriba mencionados no reflejan aún el pronunciado deterioro de las condiciones económicas mundiales, que recién ahora comienza a afectar a la rentabilidad de las inversiones en la mayoría de los países en desarrollo. Los resultados de ese género que aquí se mencionan reflejan en gran medida la experiencia de los proyectos en el período 2003–2008, en que se registró un crecimiento sin precedentes en los mercados emergentes. La mayoría de los proyectos evaluados se habían ejecutado en considerable medida, y algunos se

habían cerrado a fines de 2008, cuando la crisis comenzó a afectar al mundo en desarrollo.

Se prevé, en cambio, un deterioro de los resultados en términos de desarrollo de las operaciones que vayan alcanzando su madurez en los próximos años. Las evaluaciones anteriores muestran que la mayoría de los proyectos aprobados en los años anteriores a la crisis (y que se están ejecutando en el período de cambio desfavorable de la coyuntura) corren riesgos desde la perspectiva del desarrollo. Esta categoría comprende aproximadamente el 40% de las operaciones de la cartera de la IFC (el 62% por volumen), con lo cual la Corporación está expuesta a un considerable riesgo de que no se alcancen los objetivos fijados en materia de desarrollo. Al mismo tiempo la IFC ha fortalecido considerablemente sus procesos internos de gestión de riesgos, y su capacidad de soportar y manejar riesgos financieros parece haber mejorado significativamente en los últimos años. Un hecho importante que surge de la evaluación es que las inversiones aprobadas tras la crisis (es decir en el punto más desfavorable del ciclo económico) tenderán a lograr mejores resultados en términos de desarrollo. En consecuencia, también existirán oportunidades de alcanzar resultados que superen las proyecciones, y es necesario aprovecharlas.

La experiencia de crisis anteriores pone especialmente de manifiesto la necesidad de dos respuestas clave de parte de la IFC: primero, una cuidadosa gestión de riesgos de la cartera, especialmente en el caso de los proyectos que se encuentran en etapas tempranas de ejecución; segundo, velar por la adicionalidad de la contribución de la IFC. Esta última respuesta es especialmente importante en dos aspectos: i) la actuación de la Corporación como intermediario honesto en las reestructuraciones, y ii) la búsqueda de un enfoque oportuno y bien focalizado frente a las nuevas operaciones, especialmente a través del efecto de señal para otros inversionistas que pueden suscitar las intervenciones de la IFC.

Conocimiento para el desarrollo

Los servicios de asesoría de la IFC han venido creciendo rápidamente; el monto de la cartera activa

está próximo a los US\$1.000 millones, y el personal dedicado a esa labor está compuesto por 1.262 funcionarios, es decir que se septuplicó en los últimos siete años. En consecuencia, las características y la apariencia de la IFC han cambiado significativamente. En la actualidad el personal destinado a servicios de asesoría representa la mayor parte de la presencia de la Corporación sobre el terreno en los países en desarrollo.⁵ El acelerado crecimiento de esos servicios en general no ha tropezado con obstáculo alguno, como lo ilustra claramente el surgimiento de más de 50 productos de servicios de asesoría, 18 servicios regionales que abarcan siete regiones, 13 unidades de negocios mundiales, a lo que se agrega el hecho de que alrededor de la mitad de la labor relacionada con dichos servicios se da en contrato a consultores a corto plazo.

A continuación se plantean importantes preguntas estratégicas. Una de ellas consiste en saber si al reunir una proporción tan considerable de los negocios del conocimiento en una institución financiera, la IFC cuenta con el equilibrio de esfuerzos apropiado entre servicios de asesoría y servicios de inversiones como para lograr el máximo impacto posible en el desarrollo. También es posible llegar a soluciones de compromiso de calidad adecuada, dado el considerable cambio institucional, el alto grado de utilización de personal relativamente nuevo (el 60% de los funcionarios trabajan en la IFC desde hace menos de tres años), y la tercerización de la labor a través de la utilización, cada año, de 1.300 consultores a corto plazo. Ha aumentado también la posibilidad de conflictos de intereses o distorsiones del mercado, cuando los servicios de asesoría se ofrecen junto con el financiamiento o se dispensan a un valor inferior al de mercado.

La IFC despliega sus servicios de asesoría procurando alcanzar objetivos generales, comunes con los de las inversiones de la Corporación: ocuparse de los mercados de frontera (incluidos países de la Asociación Internacional de Fomento—AIF— y regiones de frontera de países que no reciben financiamiento de la AIF, así como pequeñas y medianas empresas y agroindustrias) y de sectores estratégicos (finanzas, infraestruc-

tura, salud y educación), y dar respaldo a la sostenibilidad ambiental y social (incluido el cambio climático). En gran medida la asignación de recursos de los servicios de asesoría ha sido congruente con esas prioridades. En otros términos, los servicios de asesoría de la IFC en general se han orientado hacia destinos en que mucho se necesitan, como los países de la AIF, y en especial de África.

Pertinencia, sin embargo, no es garantía de impacto. El 52% de los proyectos del servicio de asesoría de la IFC que fue posible calificar ocuparon un alto rango en cuanto a impacto en el desarrollo logrado. La calificación de los proyectos fue sustancialmente más alta en otras dimensiones del desempeño, como pertinencia estratégica, producto y logro de resultados, en que se alcanzó una tasa global de éxito del 70% en cuanto a eficacia en términos de desarrollo. Las calificaciones no variaron significativamente por el hecho de que los proyectos hubieran sido iniciados antes o después de las grandes reformas institucionales realizadas en 2005/06. Por región, las calificaciones han sido sustancialmente mejores en Europa meridional y Asia central, y menos satisfactorias en América Latina y el Caribe. Los proyectos mundiales evaluados tampoco lograron resultados adecuados. Por línea de negocios, aunque la variación de los resultados es menos pronunciada que a escala regional, los proyectos de infraestructura, condiciones propicias para los negocios, asesoría a empresas y acceso al financiamiento tienden a lograr mejores resultados que los de sostenibilidad ambiental y social.

Han sido factores determinantes de los resultados la identificación de los clientes con las operaciones (reflejada en contribuciones al costo de los proyectos, en especial para proyectos de sostenibilidad ambiental y social), sólido diseño y ejecución de los proyectos, proximidad de la IFC al cliente, definida por la presencia y participación local en la Corporación, intervenciones programáticas (en lugar de intervenciones por única vez) y seguimiento y evaluación eficaces. Una fuerte adicionalidad ha sido un factor fundamental para lograr resultados, y ha sido especialmente perceptible entre las operaciones de creación de

condiciones propicias para los negocios realizadas en países de la AIF, en que el riesgo que afecta al clima de negocios es alto, y en algunos paquetes de servicios, como el de los proyectos de vinculación con pequeñas y medianas empresas en los sectores de agroindustrias, manufacturero y extractivo. La formación de paquetes da lugar a potenciales conflictos de intereses que es necesario abordar eficazmente y señalar los precios apropiados. Las dificultades inherentes a la determinación del impacto de los servicios de asesoría se ven agravadas por la aplicación, relativamente insatisfactoria hasta la fecha, de las directrices de seguimiento y evaluación por parte del personal de la IFC.

En los últimos cinco años la administración de la IFC, para lograr mayor eficacia a través de los servicios de asesoría, ha procurado fortalecer la alineación institucional y los procesos de ejecución. Los siguientes son algunos de los esfuerzos realizados en los últimos años para estructurar y aclarar mejor los servicios de asesoría de la IFC: clasificación de las actividades de servicios de asesoría en cinco líneas de negocios; consolidación de algunos servicios mundiales y regionales; clasificación de productos por niveles de madurez; desarrollo de competencias del personal de los servicios de asesoría; capacitación en servicios de asesoría, y establecimiento de una Vicepresidencia de Servicios de Asesoría. La atención de la IFC en cuanto a prestación de servicios de asesoría se ha centrado en el establecimiento de mecanismos y sistemas que garanticen un financiamiento adecuado y sostenible; identificación de los clientes con los proyectos, diseño y ejecución bien concebidos de los proyectos, y sólido seguimiento y evaluación de desempeño. La labor realizada por la IFC en esos ámbitos parece haber dado mejores resultados que la realizada por otros bancos multilaterales de desarrollo, por ejemplo en cuanto a introducción de una política de precios (encaminada en términos generales a crear identificación de los clientes con sus proyectos y reducir posibles distorsiones del mercado limitando los subsidios a los bienes públicos), y establecimiento de un sistema de seguimiento y evaluación a través del cual se procura captar información sobre resultados e impactos, y no tan

sólo productos. El impulso de la transformación se mantiene a través de la reciente introducción de nuevas políticas, procedimientos y directrices relacionados con fijación de precios, conflictos de intereses, financiamiento y conducción adecuada.

La profesionalización de los servicios de asesoría, en cambio, sigue siendo una labor en curso y subsisten considerables problemas institucionales: estructuras de ejecución superpuestas y paralelas en varias regiones (África al sur del Sahara, Asia oriental y el Pacífico y Asia meridional); pocos productos firmemente establecidos, salvo los de finanzas e infraestructura; falta de claridad acerca de la mejor manera de integrar los servicios de asesoría con los de inversiones en diferentes contextos; escasa consideración de las ventajas comparativas de la IFC, a nivel estratégico y de proyectos, frente a otros proveedores de servicios del conocimiento, e inexistencia de un marco estratégico paraguas de servicios de asesoría para enlazar diferentes pasos.

Hay también considerables vacíos, que es necesario llenar, en materia de ejecución, especialmente en cuanto a coincidencia del diseño institucional con una ejecución sobre el terreno compatible con esa intención. Esta observación se aplica a la ejecución de la política de precios y al logro de un diseño y ejecución cualitativamente satisfactorios de los proyectos, así como una eficaz colaboración con otros actores, incluido el Banco Mundial. Uno de los problemas ha consistido en lograr la combinación apropiada del personal, habiéndose recurrido en gran medida a consultores a corto plazo y a funcionarios relativamente nuevos (en comparación con los que toman parte en operaciones de inversión). La combinación elegida influye poderosamente sobre la calidad y continuidad de los servicios de asesoría de la IFC, y sobre la preservación del liderazgo mundial en materia de conocimiento. En todas las etapas de la ejecución, los datos de seguimiento y evaluación proporcionados (en especial) por funcionarios y consultores a corto plazo aún no son confiables. Un hecho conexo es que los exámenes de servicios, productos y proyectos de los servicios de asesoría encargados por la IFC, si bien permiten conocer aspectos de la organización y prestación de

servicios de asesoría muestran fallas en cuanto a independencia y diseño.

Quizás el paso más importante para avanzar consiste en que la IFC cobre efectivamente los servicios de asesoría que presta. Ello representará una prueba de mercado para dichos servicios y es probable que repercuta positivamente sobre todos los aspectos de las actividades creando incentivos para generar mayor aceptación en los clientes, dar mayor solidez al diseño y la ejecución de los proyectos, fortalecer el seguimiento y la evaluación, crear productos más adecuados para satisfacer la demanda y garantizar la adicionalidad de la IFC. En el plazo inmediato sería necesario que la IFC aplicara estrictamente la actual política de precios, que en gran medida se basa en los costos (el precio que se prevé que pague el cliente es una proporción del costo del proyecto). Con el tiempo se debería tratar de basar los precios en el valor de mercado para que la IFC no corra el riesgo de desplazar a otros proveedores de conocimientos. Es por esa razón que los precios de las inversiones de la Corporación se basan en ese principio. La actual crisis económica y sus probables efectos sobre el financiamiento proveniente de donantes y de la IFC constituyen una oportunidad para que la Corporación se esfuerce más en basar los precios en el valor de mercado e inste a hacer lo propio a otras instituciones de asistencia para el desarrollo.

Recomendaciones

El presente examen se da en un contexto de profundas dificultades en los mercados financieros y grave reducción de la escala de las actividades económicas privadas, lo que nos recuerda la decisiva importancia de un desarrollo sostenible en el sector privado, para el que revisten importancia los marcos regulatorios y una excesiva desregulación resulta costosa. En tales circunstancias este examen lleva a constataciones adicionales sobre lo que podría hacer la IFC para lograr mayor efectividad en el desarrollo y mayor adicionalidad:

Operaciones durante la crisis:

- **Realizar una eficaz gestión de la tensión entre protección de la cartera y respuesta a las oportunidades que se presenten du-**

rante la crisis. En el pasado esa gestión no siempre ha sido adecuada, y la IFC ha perdido oportunidades de suscitar impactos más profundos. La experiencia indica la importancia de contar con sistemas que aislen los problemas de la cartera del desarrollo de nuevos negocios, mitigar conflictos de intereses que puedan dificultar una eficaz colaboración con el Banco Mundial y el FMI, y disponer de claras normas de participación en respuesta a la crisis, especialmente para el personal que actúa sobre el terreno. La experiencia revela también el importante papel que deben cumplir la IFC y el Grupo del Banco Mundial como promotores de sólidos marcos de gestión prudente del riesgo financiero y salvaguardias que garanticen un desarrollo sostenible del sector privado, lo que reviste especial importancia en la actualidad, en que el mundo está reconsiderando las funciones que deben cumplir los gobiernos y los mercados a raíz de la crisis financiera.

Papel de la IFC en materia de servicios de asesoría:

- **Establecer una estrategia global para los servicios de asesoría de la IFC, atendiendo la necesidad de una visión y un marco de negocios claros y estrechamente vinculados con la estrategia institucional mundial de la IFC.** Al cabo de años de crecimiento incontrolado y recientes reformas institucionales, es necesario ocuparse del papel de los servicios de asesoría en el modelo de actividad de la IFC. Sería preciso articular mejor, en la estrategia, las ventajas comparativas que posee la IFC en materia de servicios de asesoría, los objetivos y metas de dichos servicios en diferentes contextos (tema que genera confusión entre los funcionarios) y considerar las mejores combinaciones de personal posibles (en cuanto a personal interno o externo, y mundial o local), la organización de la unidad de ejecución, los incentivos y medidas de desempeño que contribuyan a alcanzar esos objetivos y metas.
- **Llevar a cabo intervenciones de servicios de asesoría más programáticas.** La evaluación muestra que la IFC ha alcanzado mejores resultados en proyectos de servicios de asesoría ejecutados en conjunción con otras interven-

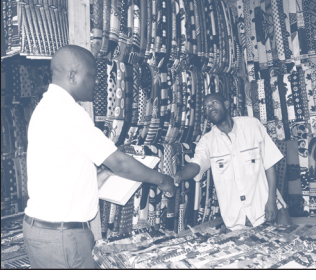
ciones de servicios de ese estilo. Menos eficaces han sido las actividades realizadas por única vez. No obstante, la labor programática de este tipo ha representado la minoría (alrededor de un quinto de los proyectos de servicios de asesoría), por lo cual la IFC debería tratar de ampliar ese tipo de intervenciones.

- **Mejorar la ejecución de la política de fijación de precios de los servicios de asesoría.** A más largo plazo sería importante tratar de obtener contribuciones de los clientes que reflejen el valor y el impacto (es decir, no tan sólo el costo), para crear una genuina prueba de demanda de los clientes, incentivos para una mejor prestación de servicios de asesoría, y como garantía de la adicionalidad de la IFC.
- **Fortalecer la medición del desempeño de los servicios de asesoría y la gestión interna del conocimiento.** A corto plazo sería importante disponer de un mayor respaldo práctico de seguimiento y evaluación sobre el terreno, seguimiento posterior a la culminación de los proyectos, captación de enseñanzas de proyectos abandonados o terminados, y más exámenes a distancia de servicios, productos y proyectos. A mediano plazo, sería conveniente introducir un sistema de informes ampliados de terminación de proyectos (semejante al sistema de informes ampliados de supervisión de proyectos para operaciones de inversiones y realizado después del informe de terminación de proyecto, para identificar mejor los impactos), evaluaciones e investigaciones de impactos más programáticas, estableciendo objetivos basados en resultados para los servicios de asesoría en su puntaje institucional, y determinar regularmente parámetros de referencia de actividades y sistemas de servicios de asesoría de la IFC con otros proveedores de servicios de conocimiento, incluidos otros bancos multilaterales de desarrollo y proveedores comerciales. A más largo plazo el objetivo podría consistir en establecer una unidad de investigación especializada que se ocupe de generar y reunir trabajos de conocimiento para el desarrollo del sector privado.

El presente informe fue examinado por un Grupo de Asesoramiento de expertos internacionales especializados en la esfera del conocimiento y el

desarrollo, integrado por el Profesor Carl Dahlgren, Profesor Asociado Luce de Relaciones Internacionales y Tecnología de la Información de la Escuela de Servicio Exterior de la Universidad de Georgetown; Acha Leke, Socio de McKinsey & Company; y Laurence Prusak, fundador y ex Di-

rector del Instituto para la Gestión del Conocimiento. En una declaración conjunta incluida en esta publicación el Grupo se manifestó de acuerdo con las recomendaciones que anteceden y sugirió a la IFC posibles pasos adicionales en la misma dirección.



موجز تنفيذي

على مدى السنوات العشر الماضية، شهدت البلدان النامية نمو اقتصاديا قويا. اقترن عادة بانخفاض مستويات الفقر. وكان القطاع الخاص مساهما رئيسيا في هذا النمو. بصورة رئيسية من خلال الاستثمار الرأسمالي الجديد. ولكن أيضا من خلال الابتكار وروح تنظيم المشروعات، مما ساعد على خلق فرص العمل وفتح الأسواق الجديدة.

تعرضت للتجاهل. في مثل هذه الأوقات، يكتسب الدور المزدوج لمؤسسة التمويل الدولية كممول ومقدم للمعرفة (جنباً إلى جنب مع البنك الدولي) أهمية خاصة. فيما يتعلق بالادور الأول، تنص مواد اتفاقية إنشاء المؤسسة على أنها يجب أن تستثمر في مشروعات القطاع الخاص السليمة في البلدان النامية التي >لا يتوفر لها رأس مال خاص كاف بشروط معقولة<، وفي مثل أوقات الأزمة الحالية، يقع على مؤسسة التمويل الدولية عبء زيادة جهودها التمويلية. ولكن دور المؤسسة كمقدم للمعرفة (جنباً إلى جنب مع البنك الدولي) هام أيضاً. لاسيما مع تركيز واضعي السياسات والمديرين على اللوائح المنظمة لأنشطة الأعمال، والحوكمة الرشيدة، والاستدامة البيئية والاجتماعية للنمو. ويتطلب هذا الدور تقديم المشورة التي تساعد على صياغة الأوضاع اللازمة لتحقيق التنمية المستدامة للقطاع الخاص - على سبيل المثال، من خلال تشجيع زيادة فعالية اللوائح التنظيمية - وتحسين قدرات ومهارات وسلوك الفاعلين المشتركين مع القطاع الخاص على أرض الواقع (بما في ذلك الإدارة الفعالة للآثار البيئية والاجتماعية للأنشطة الخاصة).

يلقي هذا التقييم المستقل للنتائج الإنمائية التي حققها مؤسسة التمويل الدولية نظرة على كل من هذين الدورين على التوالي: فعالية المؤسسة في تمويل التنمية من خلال حافظتها المتنامية من العمليات

كانت أسرع البلدان النامية نموا بشكل عام - من الهند وحتى بلدان البلطيق - هي تلك التي كانت لديها أعلى معدلات الاستثمار الخاص وتلك التي قطعت خطوات واسعة نحو سد الفجوات في المعرفة والتكنولوجيا بينها وبين البلدان المتقدمة.

تعرض الأزمة المالية العالمية الحالية الكثير من هذه المكاسب التي تحققت بشق الأنفس لتهديدات شديدة. وقد بدأت الأزمة في البلدان المتقدمة، ولكنها امتدت منذ ذلك الحين إلى البلدان النامية، وأثرت بشكل خاص في البلدان ذات الاقتصادات الأكثر ارتباطا بالأسواق العالمية. وما برح الطلب على الواردات من البلدان المتقدمة ينخفض. كما وجدت الشركات في البلدان النامية، الكبيرة والصغيرة على السواء (والصغيرة بلاذات)، أن مصادر الأموال اللازمة للاستثمارات الجديدة قد جفت، أو أصبحت أعلى كلفة بكثير وأصعب في الحصول عليها. ومن المتوقع أن تبلغ تدفقات رؤوس الأموال الخاصة إلى البلدان النامية في عام 2009، على أحسن تقدير، حوالي نصف مستواها في عام 2007 (البلاغ 1 تريليون دولار). وتوحي الأزمات السابقة بأن عودة هذه التدفقات إلى مستوياتها السابقة للأزمة قد يستغرق بضع سنوات. وبشكل أعم، أدت الأزمة بوضعي السياسات والمحللين إلى إعادة تقييم دور الأسواق والقطاع الخاص، لاسيما حيثما خف التركيز على أهمية فاعلية اللوائح التنظيمية، والإشراف التحوطي، والإدارة الائتمانية، أو

الاستثمارية. مع التركيز على الخبرة التي اكتسبتها المؤسسة أثناء الأزمات السابقة ومساعدة المتعاملين معها على تخفيض مخاطر الاستثمار (الجزء الأول): وما يحدث لأول مرة وبلاطلاي يشكل الموضوع الرئيسي لهذا التقرير. أي تجربة المؤسسة في تنظيم وتقديم خدماتها الاستشارية - الخدمات المعرفية التي تقدمها المؤسسة إما للشركات الخاصة أو للحكومات لمساندة تنمية القطاع الخاص (الجزء الثاني). من حيث النتائج، يركز التقرير على العمليات الاستثمارية للمؤسسة التي وصلت إلى مرحلة النضج التشغيلي المبكر فيما بين عامي 2006 و2008، ومشروعات الخدمات الاستشارية التي تقدمها مؤسسة التمويل الدولية في مجال إعداد تقارير إنجاز المشروعات خلال نفس الفترة. يأتي تقييم الفعالية الإنمائية للخدمات الاستشارية مصحوبا ببعض التحفظات. نظرا لأن نظام المتابعة والتقييم لم يطبق إلا في عام 2006، ونظرا للطبيعة غير الملموسة لنقل المعرفة في كثير من الأحيان. ومع ذلك، يقدم التقرير لأول مرة، عرضا مشتركا لجانب نشاط المؤسسة معا (أي الاستثمارات والخدمات الاستشارية)، بما في ذلك الأوضاع التي قدم فيها هذان النوعان من الأدوات لنفس المتعامل مع المؤسسة. كما يكمل التقرير تقييمها أجرته في الآونة الأخيرة مجموعة التقييم المستقلة لفعالية العمل الاقتصادي والقطاعي للبنك الدولي والمساعدات الفنية التي يقدمها. وهو التقييم الذي أجري في عام 2008.ⁱⁱ

تمويل التنمية

واصلت حافظة العمليات الاستثمارية لمؤسسة التمويل الدولية (القروض، والاستثمار في الأسهم، والأدوات المالية الأخرى) نموها في السنة الماضية. فقد زاد الحجم المتجمع للأنشطة الاستثمارية الجارية بحوالي الربع، من 32.7 مليار دولار في السنة المالية 2007 إلى 40 مليار دولار في السنة المالية 2008. وارتفع عدد الاستثمارات بنسبة أقل (8 في المائة)، مما يعكس تفضيلا عاما للعمليات الاستثمارية الأكبر حجما (التي تشمل بصورة مطردة تمويل الشركات بدلا عن تمويل المشروعات). واتباع نهج أكثر شمولاً للوصول إلى مؤسسات الأعمال الصغيرة والمتوسطة (أي من خلال الوسطاء الماليين والشركات الأكبر حجما).

يتيح استمرار نمو الحافظة فرصا لتوسيع نطاق الوصول الإنمائي للمؤسسة. وتظهر تقييمات مجموعة التقييم

عكست النتائج العامة الأقوى في السنوات الأخيرة عدة عوامل: (1) خروج مجموعة من المشروعات التي كان أدائها ضعيفا بشكل خاص والتي بلغت مرحلة النضج في عام 2005 (نسبة 51 في المائة من المشروعات التي بلغت مرحلة النضج في عام 2005 حققت نواتج إنمائية عالية، مقارنة بنسبة 75 في المائة من المشروعات التي بلغت مرحلة النضج في عام 2008)؛ (2) توفر أوضاع اقتصادية أكثر ملائمة في معظم البلدان النامية (حتى أواخر عام 2008، وهو الوقت الذي كان قد نفذ فيه إلى حد كبير معظم المشروعات التي جرى تقييمها)؛ (3) تحسن نوعية التقييم المسبق والهيكل الخاصة بالمشروعات التي تساندها مؤسسة التمويل الدولية؛ (4) التحرك الواعي من جانب المؤسسة نحو المشروعات الأكبر حجما، التي كان من المحتمل أن تحقق تقديرات أعلى من تقديرات المشروعات الأصغر حجما. ويرجع جزء من السبب في ذلك إلى زيادة درجة التدقيق الداخلي؛ و(5) الأداء القوي بشكل خاص في منطقة أوروبا وآسيا الوسطى ومنطقة أمريكا اللاتينية والبحر الكاريبي، حيث يقع معظم العمليات التي بلغت مرحلة النضج. وجدير بالذكر أن أوضاع أنشطة الأعمال في هاتين المنطقتين كانت شديدة المساندة وأن نوعية عمل المؤسسة كانت أقوى ما تكون. وشهدت منطقة جنوب آسيا تحسنا في الأداء، حيث كانت نوعية عمل المؤسسة أعلى مما كانت في الماضي.

لرعاية المشروعات؛ وارتفاع تكلفة تملك الأصول بأكثر مما كان متوقعا؛ ووجود حالة واحدة من عدم التقيد بالمعايير البيئية. وكانت تقديرات الآثار البيئية والاجتماعية مستقرة بالنسبة لمشروعات القطاعات الحقيقية (غير المالية). ولكنها ظلت ضعيفة في عمليات الوساطة المالية. مما عكس الحاجة إلى تعزيز قدرات المتعاملين مع المؤسسة وضمان التزامهم. وكذلك معالجة النواقص في إشراف المؤسسة والإضافة التي تقدمها.

لا تعكس النتائج الإئتمانية الواردة أعلاه بعد التدهور الحاد في الأوضاع الاقتصادية العالمية، التي بدأت لتوها في التأثير على عوائد الاستثمار في معظم البلدان النامية. وتعكس النتائج الإئتمانية التي وردت هنا إلى حد كبير تجارب المشروعات خلال فترة السنوات 2003-2008، وهي فترة شهدت نمواً لم يسبق له مثيل في الأسواق الناشئة. وكان معظم المشروعات التي جرى تقييمها قد نفذ إلى حد كبير. وكان بعضها قد أقفل في أواخر عام 2008 حينما بدأت الأزمة في التأثير على البلدان النامية.

غير أنه من المتوقع أن تنخفض في السنوات القادمة النتائج الإئتمانية للعمليات التي بلغت مرحلة النضج. ويظهر التقييم في الماضي أن المشروعات التي تمت الموافقة عليها في السنوات السابقة للأزمة (والتي يجري تنفيذها خلال فترة انخفاض النشاط الاقتصادي) تتعرض لأكثر قدر من المخاطر من منظور التنمية. وتدخل ضمن هذه الفئة نسبة 40 في المائة تقريبا (62 في المائة من حيث الحجم) من حافظة المؤسسة. ولذلك فإن المؤسسة معرضة لمخاطر إئتمانية سلبية كبيرة. وفي الوقت نفسه، عززت المؤسسة بدرجة كبيرة عملياتها الداخلية لإدارة المخاطر ويبدو أن قدرتها على تحمل وإدارة المخاطر المالية قد تحسنت بدرجة كبيرة في السنوات الأخيرة. والمهم أن التقييم يوحي بأن الاستثمارات التي تمت الموافقة عليها في أعقاب الأزمة (أي عند أسفل الدورة الاقتصادية) ستحقق عادة نتائج إئتمانية أفضل. ولذلك فإن هناك أيضا فرصا إيجابية بتعين اقتناصها.

تؤكد الخبرات المكتسبة من الأزمات السابقة على استجابتين رئيسيتين من جانب مؤسسة التمويل الدولية: أولا، الإدارة الشديدة الحرص للمخاطر الحافظة. ولاسيما المشروعات التي تجتاز مراحل التنفيذ المبكرة؛ وثانيا، الإضافة التي تقدمها المؤسسة. ولهذه الإضافة أهمية خاصة في جانبين: (1) في العمل كوسيط أمين

تخلف الأداء بدرجة كبيرة في منطقة شرق آسيا والمحيط الهادئ، وفي منطقة الشرق الأوسط وشمال أفريقيا التي تعتبر بلدانها بصورة رئيسية منخفضة الدخل. وفي منطقة أفريقيا جنوب الصحراء - حيث لبي حوالي نصف المشروعات في هذه المناطق أو تجاوز المعايير القياسية المحددة. وكانت الأوضاع الخارجية مسؤولة عن جزء من هذا الأداء السيئ - فقد تضمنت المشروعات في منطقة أفريقيا جنوب الصحراء ومنطقة الشرق الأوسط وشمال أفريقيا بشكل عام مستويات عالية من المخاطر القطرية والمخاطر المتعلقة برعاية المشروعات والمخاطر المتعلقة بقدرة المنتجات على المنافسة - ولكن نوعية عمل المؤسسة وإسهامها في المشروعات كان لهما عادة تأثير أكبر. وكان هذا هو الحال بشكل خاص في منطقة شرق آسيا والمحيط الهادئ، حيث أظهرت نسبة 40 في المائة من المشروعات تقريبا انخفاض نوعية الإضافة التي قدمتها المؤسسة. وتتوفر أدلة على تحسن العمل الخاص بفرز المشروعات والتقييم المسبق لها في منطقة الشرق الأوسط وشمال أفريقيا وتحسن نوعية الإشراف في منطقة أفريقيا جنوب الصحراء.

من بين القطاعات الاستراتيجية لمؤسسة التمويل الدولية، أظهر أداء المشروعات تحسنا مستمرا في قطاع الرعاية الصحية والتعليم، وتحسن في قطاع الصناعات الزراعية. وظل قويا في قطاعي البنية الأساسية والأسواق المالية. وفي الوقت نفسه، تخلف الأداء في قطاع تكنولوجيا المعلومات غير الاتصالات السلكية واللاسلكية (برامج الكمبيوتر والإنترنت)^{١٧} وفي القطاعات الأخرى. حققت مشروعات البترول والغاز والتعدين والكيماويات تقديرات سيئة نسبيا. ومن الواضح أن حجم التعرض للمخاطر شكل عاملا في ضعف أداء المشروعات في قطاع تكنولوجيا المعلومات غير الاتصالات السلكية واللاسلكية. والتي كان معظمها عبارة عن عمليات صغيرة اشترك فيها رعاية مشروعات عديمو الخبرة وكانت قدرة المنتجات على المنافسة غير واضحة. غير أن نوعية العمل في هذا القطاع كانت أيضا أدنى كثيرا من المستوى المطلوب؛ وكانت عالية في نسبة 40 في المائة فقط من الحالات. وتوفرت أدلة على تحسن نوعية العمل في قطاع الرعاية الصحية. حيث أظهرت المؤسسة أنها تعلمت دروسا من التجارب السابقة. ولكن حافظة المشروعات لم تحقق قدرا كبيرا من التنوع. ولم تلب مشروعات البترول والغاز والتعدين والكيماويات المعايير القياسية لعدة أسباب: مواطن الضعف الفني

من المؤسسة الدولية للتنمية والمناطق الرائدة المؤلفة من البلدان غير المؤهلة للاقتراض من المؤسسة الدولية للتنمية، وكذلك مؤسسات الأعمال الصغيرة والمتوسطة والصناعات الزراعية، والقطاعات الاستراتيجية وهي التمويل والبنية الأساسية والرعاية الصحية والتعليم، ومساندة الاستدامة البيئية والاجتماعية (بما في ذلك تغير المناخ). وقد اتسق تخصيص موارد الخدمات الاستشارية إلى حد كبير مع هذه الأولويات. أي أن الخدمات الاستشارية التي تقدمها المؤسسة استهدفت إلى حد كبير الأماكن ذات الاحتياجات العالية، مثل البلدان المؤهلة للاقتراض من المؤسسة الدولية للتنمية ومنطقة أفريقيا بلاذات.

غير أن الصلة بالأولويات لا تضمن تحقيق الأثر المطلوب. فقد حصلت نسبة 52 في المائة من مشروعات الخدمات الاستشارية التي تقدمها المؤسسة، حيثما أمكن منحها تقديرات، على درجة عالية في مجال تحقيق الأثر الإنمائي. وحصلت المشروعات على تقديرات أعلى كثيرا فيما يتعلق بأبعاد الأداء الأخرى، مثل الصلة الاستراتيجية، والناج، وتحقيق النواتج مسجلة معدل نجاح عاما في تحقيق الفعالية الإنمائية بلغ 70 في المائة. ولم تتغير التقديرات بدرجة كبيرة بالنسبة للمشروعات التي بدأت قبل التغييرات التنظيمية الرئيسية التي شهدتها المؤسسة في عامي 2006/2005. مقارنة بالمشروعات التي بدأت بعدها. وحسب المناطق، كانت التقديرات أفضل كثيرا في منطقة أوروبا الجنوبية وآسيا الوسطى، وأضعف في منطقة أمريكا اللاتينية والبحر الكاريبي. كما أن أداء المشروعات العالمية التي جرى تقييمها لم يكن جيدا. فحسب نوع النشاط، يكون أداء قطاع البنية الأساسية، والبيئة التمكينية لأنشطة الأعمال، والخدمات الاستشارية للشركات، وإمكانية الحصول على التمويل أفضل عادة منه في مجال الاستدامة البيئية والاجتماعية. وإن كانت التفاوتات في النتائج أقل مما هي وضوحا على المستوى الإقليمي.

كانت المحركات الرئيسية لتحقيق النتائج هي التزام التعاملين مع مؤسسة التمويل الدولية (الذي يستدل عليه من الإسهام في تكاليف المشروع وبلاذات في مشروعات الاستدامة البيئية والاجتماعية)، وقوة تصميم وتنفيذ المشروعات، وقرب المؤسسة من التعاملين معها والذي يحدده الوجود والاشتراك المحليان للمؤسسة، والإجراءات التدخلية البرمجية (وليس لمرة

في عمليات إعادة الهيكلة؛ و2) في اتباع نهج جيد التوقيت وموجه نحو العمليات الجديدة، لاسيما من خلال الأثر التدليلي الذي يمكن أن تقدمه إجراءات المؤسسة التدخلية للمستثمرين الآخرين.

المعرفة من أجل التنمية

ما برحت الخدمات الاستشارية التي تقدمها مؤسسة التمويل الدولية تنمو بسرعة، حيث لدى المؤسسة حافظة جارية تقترب من 1 مليار دولار وتستخدم لها 1,262 موظفا. بزيادة سبعة أمثال في السنوات السبع الماضية. ونتيجة لذلك، تغيرت بدرجة كبيرة طبيعة وشكل المؤسسة: إذ يشكل موظفو الخدمات الاستشارية الآن أغلبية وجود المؤسسة الميداني في البلدان النامية. وقد حدث النمو السريع في الخدمات الاستشارية بطريقة غير محكومة إلى حد كبير. ويتضح هذا جليا في ظهور أكثر من 50 أداة من أدوات الخدمات الاستشارية، و18 منشأة إقليمية تغطي سبع مناطق، و13 وحدة أعمال عالمية؛ وتعهيد حوالي نصف العمل الخاص بتقديم الخدمات الاستشارية لاستشاريين يستعان بهم لفترات قصيرة.

يستدعي هذا طرح أسئلة استراتيجية هامة. وتشمل هذه الأسئلة ما إذا كان لدى مؤسسة التمويل الدولية، وهي تأخذ على عاتقها كمؤسسة تمويلية هذا القدر الكبير من النشاط المتعلق بالمعرفة، التوازن الملائم للجهود فيما بين الخدمات الاستشارية والخدمات الاستثمارية لضمان تحقيق أقصى أثر إنمائي. كما أن من الممكن حدوث مفاضلات تتعلق بال نوعية، نظرا للتغير الكبير في الهيكل التنظيمي، والاعتماد الشديد على موظفين جدد نسبيا (مدة خدمة 60 في المائة منهم لدى المؤسسة تقل عن ثلاث سنوات)، وتعهيد العمل من خلال حوالي 1,300 استشاري يستعان بهم لفترات قصيرة كل سنة. وهناك أيضا احتمال متزايد لحدوث تضارب في المصالح أو تشويه للأسواق - حيث تقدم الخدمات الاستشارية جنبا إلى جنب مع التمويل، أو تقدم بأقل من قيمتها السوقية.

تقدم مؤسسة التمويل الدولية خدماتها الاستشارية سعيا وراء تحقيق أهداف عامة مشتركة مع أهداف استثمارات المؤسسة. وتشمل هذه الأهداف التركيز على الأسواق الرائدة (بما فيها البلدان المؤهلة للاقتراض

والتمويل والحوكمة.

غير أن احترافية الخدمات الاستشارية لا تزال عملاً غير مكتمل وفي طور الإنجاز ولا تزال هناك قضايا تنظيمية هامة: هياكل التنفيذ المتداخلة والمتوازية في عدة مناطق (أفريقيا جنوب الصحراء، وشرق آسيا والمحيط الهادئ، وجنوب آسيا)؛ ووجود عدد قليل من الأدوات المترسخة خارج نطاق قطاعي التمويل والبنية الأساسية؛ وعدم الوضوح بشأن أفضل وسيلة لدمج الخدمات الاستشارية والخدمات الاستثمارية في الأطر المختلفة؛ والمراعاة المحدودة للمزايا النسبية للمؤسسة بلانسية لمقدمي الخدمات المعرفية الآخرين على المستوى الاستراتيجي ومستوى المشروعات؛ وعدم وجود إطار استراتيجي شامل للخدمات الاستشارية لدمج الخيوط المختلفة في نسج واحد.

كما توجد فجوات كبيرة في التقديم يتعين معالجتها - لاسيما فيما يتعلق بتحقيق انسجام البنية المؤسسية مع التنفيذ المتسق ميدانياً. وينطبق هذا فيما يتعلق بتنفيذ سياسة التسعير وكذلك ضمان جودة نوعية تصميم وتنفيذ المشروعات، والتعاون الفعال مع الفاعلين الآخرين، من فيهم البنك الدولي. كما شكل إيجاد مزيج الموظفين السليم تحدياً خاصاً، نتيجة الاعتماد الشديد على الاستشاريين الذين يستعان بهم لفترات قصيرة، والموظفين الجدد نسبياً (مقارنة بأولئك الذين يعملون في العمليات الاستثمارية). وللمزيج المختار مدلولات رئيسية بلانسية لنوعية واستمرارية الخدمات الاستشارية التي تقدمها مؤسسة التمويل الدولية، والمحافظة على وضع القيادة العالمية في مجال المعرفة. وفي كافة مراحل تقديم الخدمات، استمرت مشكلة عدم القدرة على الاعتماد على دقة بيانات المتابعة والتقييم التي يقدمها الموظفون والاستشاريون الذين يستعان بهم لفترات قصيرة (بلاذات). ويرتبط بذلك أن الاستعراضات التي تأمر المؤسسة بإجرائها لمنشآت وأدوات ومشروعات الخدمات الاستشارية أظهرت نواقص من حيث الاستقلالية والتصميم، على الرغم من أنها أتاحت إلقاء نظرة فاحصة على تنظيم وتقديم الخدمات الاستشارية.

ربما يكون التقاضي الفعال لرسم مقابل الخدمات الاستشارية التي تقدمها مؤسسة التمويل الدولية أهم خطوة يمكن اتخاذها في المستقبل. ذلك أن التقاضي الفعال لرسم مقابل الخدمات من المتعاملين مع المؤسسة سيدخل اعتباراً سوقياً للخدمات الاستشارية ومن المحتمل أن يكون له أثر إيجابي على كافة جوانب

واحدة، ونظام المتابعة والتقييم الفعال. وكانت الإضافة القوية التي تقدمها المؤسسة أساسية لتحقيق النتائج. وكانت ملحوظة بشكل خاص في العمليات المتعلقة بالبيئة التمكينية لأنشطة الأعمال في البلدان المؤهلة للاقتراض من المؤسسة الدولية للتنمية والتي يتسم مناخ الأعمال فيها بقدر عالٍ من المخاطر. وفي بعض مجموعات الخدمات، مثل مشروعات ربط مؤسسات الأعمال الصغيرة والمتوسطة في قطاعات الصناعات الزراعية والصناعات التحويلية والصناعات الاستخراجية، وتثير مجموعات الخدمات هذه احتمال حدوث تضارب في المصالح. يتعين معالجته بصورة فعالة. ويستدعي التسعير الملائم للخدمات، وتتفاقم القيود المتأصلة في تحقيق الأثر من الخدمات الاستشارية نتيجة التطبيق الضعيف نسبياً حتى الآن من جانب موظفي المؤسسة لإرشادات المتابعة والتقييم.

على مدى السنوات الخمس الماضية، اتخذ جهاز إدارة مؤسسة التمويل الدولية إجراءات لتحسين فعالية خدماتها الاستشارية من خلال بذل جهود استهدفت تعزيز اتساقها التنظيمي وعمليات تقديمها. وتشمل الجهود التي بذلت في السنوات القليلة الماضية لتحسين هيكل ووضوح الخدمات الاستشارية التي تقدمها المؤسسة: تقسيم أنشطة الخدمات الاستشارية إلى خمسة أنواع أعمال؛ ودمج بعض المنشآت العالمية والإقليمية؛ وتصنيف الأدوات حسب مستوى النضج؛ وتنمية كفاءات موظفي الخدمات الاستشارية؛ والتدريب على تقديم الخدمات الاستشارية؛ وإنشاء مكتب نائب رئيس لشؤون الخدمات الاستشارية. وقد تركز اهتمام المؤسسة بتقديم الخدمات الاستشارية على إنشاء الآليات والأنظمة اللازمة لضمان: توفر التمويل الكافي والمستدام؛ والتزام المتعاملين مع المؤسسة؛ وسلامة تصميم وتنفيذ المشروعات؛ والأداء القوي لنظام المتابعة والتقييم. ويبدو أن جهود المؤسسة في هذه المجالات تقارن بصورة مؤاتية مع الإجراءات التي اتخذتها بنوك التنمية المتعددة الأطراف الأخرى. ومنها على سبيل المثال إدخال سياسة تسعير (تسعى بشكل عام إلى بناء التزام المتعاملين وتخفيض التشوه المحتمل للأسواق عن طريق الحد من تقديم أي إعانات للسلع العامة). وتطبيق نظام متابعة وتقييم يسعى إلى استخلاص النواحي والآثار، وليس مجرد المخرجات. وقوة الدفع نحو التغيير مستمرة نتيجة تطبيق سياسات وإجراءات وإرشادات جديدة في الآونة الأخيرة تتعلق بالتسعير وتضارب المصالح

للموظفين الميدانيين. كما تشير التجارب إلى الدور الهام الذي يتعين أن تلعبه المؤسسة ومجموعة البنك الدولي في تشجيع وضع أطر سليمة للإدارة التحوطية للمخاطر المالية ووجود قواعد وقائية لضمان التنمية المستدامة للقطاع الخاص. وهذا الأمر هام بصفة خاصة اليوم، حيث يعيد العلام فحص أدوار الحكومات والأسواق في أعقاب الأزمة المالية.

دور مؤسسة التمويل الدولية في تقديم الخدمات الاستشارية

• وضع استراتيجية عامة للخدمات الاستشارية التي تقدمها المؤسسة، تلبي الحاجة إلى رؤية وإطار عمل واضح، وتكون مرتبطة ارتباطاً وثيقاً بالاستراتيجية المؤسسية العالمية للمؤسسة. في أعقاب سنوات من النمو غير الحكوم والتغيرات التنظيمية التي أجريت في الآونة الأخيرة، يحتاج دور الخدمات الاستشارية في نموذج عمل المؤسسة إلى المعالجة. وسيتعين على الاستراتيجية أن تبين بشكل أفضل المزايا النسبية للمؤسسة في مجال الخدمات الاستشارية، وأهداف وغايات الخدمات الاستشارية في الأطر المختلفة (وهو ما يمثل مصدراً للبلبل في أوساط الموظفين). وأن تبحث أفضل تشكيلات الموظفين (فيما يتعلق بالموظفين الداخليين أو الخارجيين، وكذلك الموظفين العالميين أو المحليين)، وتنظيم وحدات تقديم الخدمات، والحوافز ومعايير قياس الأداء اللازمة للمساعدة على تحقيق هذه الأهداف والغايات.

• إتباع نهج أكثر برامجية لتقديم الخدمات الاستشارية. يظهر التقييم أن مؤسسة التمويل الدولية حققت نتائج أفضل في مشروعات تقديم الخدمات الاستشارية التي نفذت جنباً إلى جنب مع إجراءات أخرى خاصة بالخدمات الاستشارية. وكانت الأنشطة التي تنفذ مرة واحدة فقط أقل فعالية. غير أن الجهود البرامجية من هذا النوع شكلت أقلية (حوالي خمس جميع مشروعات تقديم الخدمات الاستشارية). وتبعاً لذلك يتعين على المؤسسة أن تسعى إلى توسيع نطاق هذا النوع من الإجراءات.

• تحسين تنفيذ سياسة تسعير الخدمات الاستشارية. على المدى الأطول، سيكون من

النشاط: في مجال خلق حوافز لزيادة تقبل المتعاملين مع المؤسسة لهذه الخدمات، وتقوية تصميم وتنفيذ المشروعات، وتقوية نظام المتابعة والتقييم، وتطوير أدوات تلبي الطلب على أفضل نحو. وضمان نوعية الإضافة التي تقدمها مؤسسة التمويل الدولية. في الأمد الفوري، يتعين على المؤسسة أن تنفذ بصرامة سياسة التسعير الحالية، المستندة إلى حد كبير إلى التكاليف (أي أن السعر الذي يتوقع أن يدفعه المتعامل مع المؤسسة يشكل نسبة من تكاليف المشروع). وبمرور الوقت، يجب بذل جهود للانتقال إلى نهج تسعير مستند إلى القيمة السوقية، بحيث لا تخاطر المؤسسة بمزاحمة مقدمي المعرفة الآخرين. وجزير بالذكر أن استثمارات المؤسسة تسعر وفقاً لهذا المبدأ للسبب نفسه. وتمثل الأزمة الاقتصادية الحالية، وآثارها المحتملة على التمويل المقدم من المانحين والمؤسسة، فرصة للمؤسسة للدفع بمزيد من القوة في اتجاه التسعير المستند إلى القيمة، ولتشجيع مؤسسات التنمية الأخرى على أن تخذو حذوها.

التوصيات

يأتي هذا الاستعراض في وقت يتسم بضائقة شديدة في الأسواق المالية وتقليص شديد للأنشطة الاقتصادية الخاصة. وهو يذكّرنا بالأهمية الحاسمة للتنمية المستدامة في القطاع الخاص. الذي تعتبر الأطر التنظيمية هامة له بينما التخفيف المفرط للوائح التنظيمية باهظ التكلفة. وفي ظل هذه الظروف، يقدم هذا الاستعراض استنتاجات إضافية بشأن ما يمكن أن تفعله مؤسسة التمويل الدولية لتحسين الفعالية الائتمانية والإضافة التي تقدمها:

العمليات أثناء الأزمة

• الإدارة الفعالة لعملية الشد والجذب بين حماية الحافطة واغتنام الفرص أثناء الأزمة. في الماضي، لم يكن هذا الشد والجذب يدار دائماً بصورة كافية وأضاعت مؤسسة التمويل الدولية فرصاً لكي تحدث تأثيراً أعمق. وتوحي التجارب بأهمية الترتيبات التي تتخذ لعزل مشاكل الحافطة عن تنمية أنشطة جديدة. وتخفيف عمليات تضارب المصالح التي يمكن أن تعيق التعاون الفعال مع البنك الدولي وصندوق النقد الدولي، وأهمية وجود قواعد اشتراك واضحة في مجال التصدي للأزمة، لاسيما بالنسبة

للخدمات الاستشارية في بطاقة تسجيل الدرجات المؤسسية، وإجراء مقارنة معيارية قياسية منتظمة لأنشطة وأنظمة الخدمات الاستشارية التي تقدمها مؤسسة التمويل الدولية مع مقدمي الخدمات المعرفية الآخرين، بما في ذلك بنوك التنمية المتعددة الأطراف الأخرى والمقدمون التجاريون للخدمات. وعلى المدى الأطول، يمكن أن يتمثل الهدف في إنشاء وحدة بحوث متخصصة تركز على خلق وجميع العمل المعرفي الخاص بتنمية القطاع الخاص.

استعرضت هذا التقرير هيئة استشارية من الخبراء الدوليين في مجال المعرفة والتنمية، تآلف أعضاؤها من: البروفيسور Carl Dahlman، الأستاذ المساعد لكرسي Luce للعلاقات الدولية وتكنولوجيا المعلومات في كلية الخدمة الخارجية بجامعة جورج تاون؛ وAcha Leke، الشريك في شركة McKinsey & Company؛ وLaurence Prusak، المؤسس والمدير السابق لمعهد إدارة المعرفة. وفي بيان مشترك، تضمنه هذا التقرير، اتفقت الهيئة مع التوصيات الواردة أعلاه، واقترحت خطوات إضافية يمكن أن تتخذها مؤسسة التمويل الدولية في نفس الاتجاه.

الأهمية بمكان السعي إلى الحصول على إسهامات من المتعاملين مع المؤسسة تعكس القيمة والأثر (أي أنها لا تعكس التكلفة وحدها) لخلق اختبار حقيقي للطلب من المتعاملين، وتوفير حوافز لتحسين تقديم الخدمات الاستشارية، وضمان أن مؤسسة التمويل الدولية تقدم إضافة فعلية.

• تحسين قياس أداء الخدمات الاستشارية والإدارة الداخلية للمعرفة. في المدى القصير، سيكون من الأهمية بمكان تقديم مزيد من المساندة المباشرة للمتابعة والتقييم ميدانياً، ومتابعة لاحقة لإنجاز المشروعات، واستخلاص الدروس من المشروعات التي يتم التخلي عنها أو إنهاؤها، وإجراء استعراضات أكثر استقلالا للمنشآت والأدوات والمشروعات. وفي المدى المتوسط، سيكون من المفيد إدخال نظام التقارير الموسعة عن إنجاز المشروعات (الشبيه بنظام التقارير الموسعة للإشراف على المشروعات الخاصة بالعمليات الاستثمارية، وتنفيذه في وقت لاحق لتقرير إنجاز المشروع من أجل تحسين استخلاص الآثار). وإجراء تقييم أكثر برامجية للآثار وبحوث الآثار، ووضع أهداف مستندة إلى النتائج بالانسبة



IFC Management Response to IEG-IFC

*Independent Evaluation of IFC's Development Results 2009: Knowledge for Private Sector Development**

Management welcomes IEG's *Independent Evaluation of IFC's Development Results 2009*. The report reviews the development results of Investment Services (IS) projects evaluated from 2006 to 2008 that were approved between 2001 and 2003 and Advisory Services (AS) operations evaluated between 2006 and 2008 that were approved between 1996 and 2008. It is the first IEG report that includes evaluations of both IS and AS operations.

Introduction

IFC is operating in an unprecedented and challenging environment today. The financial crisis that started in the developed economies has now become a global economic crisis, adversely affecting our clients to varying degrees. Private capital flows are down significantly, global financial institutions are curtailing lending and exports are falling, leading to an expected overall contraction in economic growth. The crisis is still unfolding, and the extent of its impact on development results is

still unknown. Under these conditions, IFC is increasingly proactive in protecting its portfolio clients and innovating new business models to respond to the crisis. A third party assessment of IFC's experience in development, such as this report, plays an important role in informing IFC's strategic response during this crisis.

While we are pleased that the independent evaluation found that IFC achieved strong development results in both IS and AS, we note that the ongoing global slowdown and sharp decline in market conditions are not yet reflected in these results. Development outcomes of IS operations are at a record high at 72 percent (85 percent by volume), i.e., nearly three-quarters of operations

*Discussed by the IFC Board Committee on Development Effectiveness (CODE) on March 11, 2009 and subsequently considered by the IFC Board on a no objection basis. Released by IFC in accordance with IFC's Policy on Disclosure of Information.

met or exceeded market, financial, economic, environmental and social performance benchmarks and standards, and made positive contributions to private sector development beyond the project. IFC's performance in health and education, while based on a relatively small sample, is noteworthy, achieving high development outcome in 100 percent of evaluated operations. This confirms that appropriately structured private participation in social sectors is good for development. IFC work quality has improved again. Results of initiatives IFC undertook to strengthen appraisal and supervision, such as increased decentralization and enhanced risk management, are becoming more evident in IFC's development performance. IFC is taking advantage of this momentum by further deepening its initiatives such as in environmental supervision and client capacity building in the financial sector, especially in more difficult regulatory conditions. Going forward, IFC expects to stay focused on both portfolio and new business opportunities and challenges in light of the current global crisis.

In AS operations, 70 percent of evaluated projects achieved a satisfactory or better rating in Development Effectiveness (DE)—a synthesis rating of five development dimensions comprising strategic relevance, output, outcome, impact, and efficiency. Significantly, most of the projects evaluated by IEG were designed and, in many cases, implemented before Management fully implemented the raft of recent actions intended to strengthen the impact of our AS business. Those actions have included: organizing the business into five business lines; establishing rigorous project review, approval, and supervision processes; creating a rigorous monitoring and evaluation system; instituting a pricing policy to strengthen client commitment to implementation and ensure any subsidies are justified by the balance of public and private benefits involved; reviewing products based on performance and categorizing them by level of maturity; establishing protocols to promote effective World Bank Group coordination when engaging with government clients; strengthening financial management systems; developing AS staff competencies and training; and launching a major knowledge management ini-

tiative to capture and disseminate lessons of experience across IFC. The momentum continues, and in the last year alone management has established a dedicated Vice Presidency for Advisory Services; strengthened policies, procedures, and guidelines dealing with matters from the administration of trust funds to the management of records; and undertaken a second major review of our AS product offerings. We will also shortly be announcing refined organizational arrangements with clearly defined accountabilities that are consistent across the business. These measures augur well for even stronger development results going forward. As the report acknowledges, IFC's efforts in these areas compare very favorably with measures taken by other multilateral development banks (MDBs).

The report also indicates that IFC's responses to past crises were relevant and effective. While private sector investors generally hold back in times of crisis, IFC remained committed to its development role. IFC's investments in high-profile strategic companies and restructuring of major existing projects sent powerful positive signals at a time when market confidence was waning in crisis countries. Demand for IFC was strong, especially for its risk mitigation, knowledge, and innovation. Overall, projects approved in the wake of a crisis achieved better results than pre-crisis projects. Existing projects that were in the early stages of implementation were most vulnerable and were hit hardest by the crisis. The nature, quality, and speed of IFC's portfolio and new business responses proved crucial in the success of IFC's operations in past crises.

We agree with the overall direction of the report's recommendations. Our responses to the recommendations are set out below.

Response to Specific Recommendations

Recommendation 1: Effectively manage the tension between protecting the portfolio and responding to opportunities during crisis.

Response. Management agrees with providing appropriate focus on both protecting our portfolio and responding to opportunities during the cri-

sis. IFC has crafted separate but coordinated responses to the current crisis.

IFC's first priority is to work with its portfolio clients to help them weather the crisis and at the same time protect IFC's portfolio. Portfolio work capacity has been enhanced where it is most needed. Nearly all portfolio managers are now based in the field because this is critical to understanding client issues quickly and resolving them expeditiously. More investment and corporate services staff have been assigned to portfolio work and IFC is further strengthening its human resources to ensure that it has adequate requisite skills in complex restructuring and recovery operations. IFC has undertaken several initiatives to closely supervise its portfolio, including:

- Deepening of portfolio stress testing by developing structured stress-testing methodologies and disseminating them throughout the Corporation;
- Assembling a new team dedicated to portfolio oversight and compliance testing. This team will monitor portfolio management processes and activities globally in order to ensure best practice and will be developing a portfolio scorecard for investment departments on all aspects of portfolio management;
- Enhancing portfolio intelligence activities to develop finer methodologies for all portfolio valuations as well as single and group exposure aggregation.

Non-investment departments are also increasingly engaged in helping meet the needs of our portfolio clients. For example, the Special Operations Department has started to get involved early in the investment project cycle to coach Investment Officers and teach lessons learned from restructuring. Along with the central Portfolio Management Department, the Special Operations Department is currently being reinforced with more senior-level resources and an expanded and more proactive mandate to allow for early risk identification and heightened portfolio supervision.

In terms of new business opportunities during the crisis, IFC has established a number of program-

matic initiatives that are clearly separate from portfolio operations. These initiatives are being structured for greater development impact and are targeted at specific liquidity and other financing needs, as well as advisory demands arising from the current crisis. Initiatives already starting to gain traction include:

- *Bank Recapitalization Fund*: A global equity fund to recapitalize banks, for up to \$5 billion from IFC and other investors.
- *Trade Initiatives*: Global Trade Finance Program: doubling to \$3 billion. Continued focus on banks in IDA/frontier markets; other initiatives are also being developed.
- *Microfinance Liquidity Facility*: A \$500 million facility to instill confidence in the microfinance industry, jointly with KfW. Initial contributions (IFC \$150 million) will focus on short-term debt.
- *Infrastructure Crisis Facility*: Facility to support viable privately funded infrastructure projects facing financial distress. IFC expects to mobilize between \$1.5 billion and \$5 billion.
- *Sovereign Fund Initiative*: A fund of at least \$1 billion, of which IFC would provide up to \$200 million to invest in frontier markets.
- *Advisory Services*: Refocusing existing programs on financial sector and infrastructure; new programs in risk management, loan portfolio workout/non-performing loan management; scaling up select programs.

IFC has established a new investment subsidiary, the IFC Asset Management Company, LLC, which will initially carry out both the Sovereign Fund Initiative and the Bank Recapitalization Fund. Such a move clearly separates these specific new business initiatives from IFC's portfolio operations.

As the IEG report acknowledges, IFC-World Bank cooperation will continue to play an important role in IFC's goal of achieving greater development impact. Significant progress has been achieved at the level of strategy, policies, systems, and projects. In developing the crisis response, for example, IFC has coordinated with the Bank in developing its special initiatives, e.g. the Infrastructure Crisis Facility Fund and the Bank Recapitalization Fund. Going forward, IFC will track

its performance in strengthening Bank Group cooperation through its Corporate Scorecard.

Recommendation 2: Set out an overall strategy for IFC Advisory Services, addressing the need for a clear vision and business framework that is more closely linked with IFC's global corporate strategy.

Response. Management agrees on the importance of a clear strategy and business framework for our AS business. As noted above, IFC has been working intensively over the past few years to strengthen the strategic and operational effectiveness of our AS business. This has included a raft of actions at the policy, system, process, product, and organizational levels. Each of these actions reflects the exercise of strategic judgment about the kind of advisory services IFC intends to provide in order to fulfill our mission. We have chosen to develop an integrated strategy for both our investment and advisory businesses, believing that this is the most promising path to maximize our development impact. At the corporate level, this is reflected in our overall strategy. Individual regional, country, and industry strategies also reflect the complementary nature of our investment and advisory instruments, and are developed and honed through intensive annual bottom-up and top-down strategy exercises that include full engagement of investment and advisory staff. As noted above, advisory services are also an integral part of our strategic response to the unfolding financial and economic crisis.

Recommendation 3. Pursue more programmatic AS interventions.

Response. Management agrees that programmatic AS interventions often promise more substantial development impact than more limited interventions. In recent years this has become the hallmark of our approach in areas such as corporate governance and small and medium enterprise financing, where interventions at the level of individual firms are complemented by measures that embrace a broader pool of firms and the overall enabling environment. In some cases

this approach is implemented by a single project encompassing interventions at all three levels. In other cases, the approach is implemented through a series of projects sequenced to address priority constraints or to ensure strong client commitment. In yet other cases, IFC interventions are designed to complement the activities of the World Bank or other development actors, and focus on IFC's area of comparative advantage. In all cases, however, the goal is to maximize our development impact. IFC proposes to continue to emphasize programmatic approaches wherever feasible and appropriate.

Recommendation 4. Improve execution of the AS pricing policy.

Response. Management agrees that our pricing policy is an important tool to strengthen the impact of our AS interventions, but differs with IEG on parts of their analysis and recommendations. As context, IFC has been charging clients for some of its advisory products for many years. Since January 2007 this approach was broadened to embrace the full range of our advisory services. Importantly, the policy is not intended to raise revenue *per se*, but rather, it aims to strengthen client commitment to implementation of our advice, and to ensure any subsidy is justified by the balance of private and public benefits involved. Reflecting these aims, the policy recognizes not only client payments direct to IFC, but also in-kind contributions and payments to third parties (e.g., consultants). Moreover, since our AS is focused on addressing market failures, including the generation of public goods, pricing approaches based on the value or impact of our AS will often not be relevant or practicable. Indeed, if advisory products could be priced on a full commercial basis, questions might arise about why IFC, rather than a private consulting business, should be providing the advice. These considerations mean that fees received directly by IFC (the metric chosen by IEG) provide limited insights into the extent of compliance with the policy. IFC intends to keep the operation of our AS pricing policy under regular review, and will continue to refine the implementation of the policy based on experience.

Recommendation 5. Strengthen AS performance measurement and internal knowledge management.

Response. IFC agrees on the importance of effective performance management and internal knowledge management, and is committed to improving its performance in both areas. IFC introduced its monitoring and evaluation (M&E) system for advisory services in 2005. The M&E function in IFC is decentralized, with every region staffed with one or more M&E officers. In addition to regular monitoring on core indicators developed for each advisory product, there have been a number of external in-depth project and program reviews to capture lessons and results. As noted in the report, IFC's efforts in this area compare very favorably with other MDBs. Currently, about 60 percent of project approval documents apply lessons learned from evaluations or "smart lessons." Management's emphasis on the application of lessons learned is strong and we expect to reach a 100 percent target in the next two years. Formal portfolio review processes, including M&E data, started in 2007, and in 2009 will incorporate standard corporate guidelines. Going

forward, Management would be very supportive of the development of an Expanded Project Completion Report (XPCR) instrument, the criteria to determine projects that will be subjected to a process, and a relevant guidance.

Research, development, and innovation in support of IFC's strategic priorities are an integral part of our advisory services business. Management has recently launched a major knowledge management initiative for IFC as a whole. It draws on lessons of experience with similar initiatives in the World Bank and elsewhere, and has a strong emphasis on capturing lessons of experience from our front-line staff, supported by a cadre of technical specialists for key products and M&E staff, as well as active knowledge-sharing networks for each business line. In addition, the joint World Bank/IFC Vice Presidency for Finance and Private Sector Development engages in a substantial research program with internal and external partners. Against this background, Management does not believe that a specialized IFC unit focusing on private sector development knowledge work is necessary over and above the current initiatives.



Chairperson's Summary: Committee on Development Effectiveness (CODE)

The Committee on Development Effectiveness (CODE) considered the report, *Independent Evaluation of IFC's Development Results 2009: Knowledge for Private Sector Development*, prepared by the Independent Evaluation Group (IEG) of the International Finance Corporation (IFC), together with the draft Management Response (MR). The Advisory Panel Statement on the IEG report was circulated for information.

Overall Conclusions. The Committee commended IEG for a comprehensive evaluation and generally agreed with the main thrust of its recommendations. It was also pleased that overall, IFC achieved high development results in most of its investments and advisory services (AS) operations. Some members asked management to present an action plan for implementing these recommendations. Members agreed on IEG's recommendation for IFC to be prepared to address the many challenges ahead given the current global financial crisis, including balancing between the need to protect the portfolio, the need to enhance the quality of AS, and the need for IFC to play a counter-cyclical role. There were different opinions on whether there should be a separate strategy for IFC AS or whether it should be embedded into IFC's corporate strategy. Related to this, members raised comments and questions on the integration of AS and Investment Services

(IS); and on IFC's high reliance on newly hired staff and outsourcing the provision of AS. There were varied views on the pricing policy and the possible impact of changing this policy on IFC's business model. For the next IEG report, there was a suggestion that IEG evaluate AS embedded in investments in the financial sector and assess how this knowledge is disseminated through implicit informal channels.

Next Steps. The Committee recommended that the Board consider the IEG report and MR without a meeting, i.e., on an absence-of-objection basis. Management will prepare a Supplemental Note to the upcoming IFC Road Map paper to expand on some of the comments and questions raised at the meeting.

The following main issues were raised at the meeting:

IEG Report. Further elaboration was sought for IEG to provide specific suggestions for improving IS and AS performances in East Asia and Pacific, Middle East and North Africa and Sub-Saharan Africa, where progress lagged. IEG replied that IFC needed to improve appraisal and structure quality in East Asia and Pacific and Sub-Saharan Africa, and supervision quality in Middle East and North Africa. IFC also commented that results in East Asia and Pacific were affected by downswings in the information technology industry, while business environment issues affected results in Africa, and difficult country conditions in 2001 and 2002 affected results in Middle East and North Africa.

Crisis Context. Members encouraged IFC to protect its portfolio and the quality of its AS during the current global financial crisis, and to incorporate lessons learned from past crises. They also encouraged IFC to play a counter-cyclical role and to be more innovative by including restructuring and financial engineering of enterprises, as well as designing innovative instruments such as guarantees. There were also comments on the impact of the current crisis on investments and AS, given the IFC's increased decentralization.

Advisory Services. Some speakers commented on the bundling of AS with IS; the proportion of AS as an independent product line and complement to IS and the possible impact of relying on trust funds to finance AS. They queried how to balance and improve IFC's organizational alignment, which currently relies on a dispersed set of new staff and short-term consultants to deliver global knowledge. In this regard, one member felt that it was possible to use in-house knowledge to carry out IFC's core business, while outsourcing the new areas of knowledge in which IFC did not have enough skills. Management indicated that about 20 percent of AS is linked to investment services. It also noted that intense participation of both staff and consultants was part of IFC's business model. Another member emphasized the

importance of IEG's validating the effectiveness of the IFC AS business model moving forward.

Members stressed the importance of developing clear coordination mechanisms and incentives between IFC and International Development Association (IDA)/International Bank for Reconstruction and Development (IBRD), within the World Bank Group, and with other multilateral institutions based on their respective comparative advantages. One member agreed on the need for IFC to set out an overall strategy for AS, as recommended by IEG, and concurred with the Advisory Panel's recommendation to develop "a robust and integrated plan beyond just the strategy" for AS. Another member felt the AS strategy should be reflected in the IFC's Road Map. Management noted that IFC has a corporate strategy, including both investments and AS.

AS Pricing Policy. Some members disagreed with IEG's recommendations to move toward value-based client contributions. They were concerned that it may negatively affect the demand for IFC's AS, especially in IDA and conflict-affected countries. They also cautioned against over-emphasizing fee-based services, especially because part of the AS is to support governments in providing public goods and improving investment climate. Some agreed that there were positive aspects of pricing, such as demand discipline or revenue that might enhance the sustainability of AS. To this end, members asked management to consider such changes carefully. Management noted that the primary goal of the pricing policy was to strengthen client commitment to implementation, and to ensure that any subsidies were justified by the balance of public and private benefits. Management noted that it will clarify aspects of the pricing policy in the revised version of the Management Response.

Jiayi Zou, Acting Chairperson



Advisory Panel Statement

Carl J. Dahlman, Professor of International Affairs at Georgetown University, former staff member of the World Bank, including Staff Director of the World Development Report: Knowledge for Development 1998/1999

Acha Leke, Partner, McKinsey & Company, Johannesburg, as leader of McKinsey's Sub-Saharan Africa Initiative

Laurence Prusak, Co-Director of Working Knowledge, a knowledge research program at Babson College, and founder of IBM's Institute for Knowledge Management

We found the IEG's ***Independent Evaluation of IFC's Development Results 2009: Knowledge for Private Sector Development*** to be an excellent and timely report. The report successfully takes on the very challenging task of evaluating not only IFC's investment operations but also, for the first time, IFC's advisory services (AS). This task was made all the more challenging by two unrelated aspects. The first is that IFC's AS has been growing very rapidly, and that it is only recently that IFC has begun to put in clearer objectives and procedures to approve, manage, monitor, and evaluate this line of business. This has limited the coverage and the quality of the data that can be used to assess the wide range of AS. The second is the severe global financial and economic crisis that has spread and deepened, while the evaluation was being undertaken, and which has not bottomed-out yet. The authors are to be commended for beginning to incorporate some of the implications of the crisis for both IFC's investment operations and AS.

In this note, we will make some general comments on the report, and then complement the

analysis and recommendations, particularly regarding AS because this is the main focus of the report.

Comments on the Report

Overall, the report is very good, and is both detailed and fact-based. It contains concrete and actionable recommendations. Here we comment on the conceptual framework and the methodology.

Conceptual framework: The report does a good job of outlining the importance of knowledge for development. It also emphasizes the role of the private sector and of private sector knowledge in development. IFC contributes to private sector development through its investment operations, as well as through its advisory services. IFC transfers quite a lot of technical and organizational knowledge to individual companies (firms, as well as financial and non-financial intermediaries) as part of its regular investment operations. This is recognized in the report, but is not treated explicitly. Instead, the focus on knowledge transfer in the report is explicitly on AS. This typically consists of broader policy knowledge directed primarily to government (more

than 52 percent of IFC's AS by value), although it also goes to financial and non-financial intermediaries, large commercial firms, and small and medium enterprises. While the knowledge that IFC transfers through its investment operations may be hard to quantify, the important development impact of that knowledge should not be glossed over. It could be argued that this knowledge transfer is as important as that transferred through AS. In addition, there should be more evaluation of the quality of that knowledge transfer, as well as some analysis of how the value of that transfer can be increased through more explicit attention to management of that knowledge. Addressing this may be an issue for the report next year.

Methodology: We found it very appropriate that the report complemented the database on project completion reports, particularly regarding AS, with extensive internal and external interviews, including with clients and other development organizations. This allowed it to compensate the still relatively new and incomplete monitoring and assessment instruments for AS, and to overcome some of the biases of self reporting by staff involved in the projects being assessed. This allowed the authors to provide some very important and critical insights and to put their findings in perspective. A few additional analyses in critical areas (e.g., pricing) would have been helpful to understanding the crux of the issue better, and as a result, strengthen the overall recommendation. We would recommend drilling a bit deeper into critical areas in future reports.

Performance of IFC's Investment Operations

The report clearly demonstrates the significant improvement of IFC's investment operations over the years and focuses on projects that reached maturity in 2006–08. It notes that part of the improvement has been due to the exit of a particularly weak cohort of projects that matured in 2005, more favorable conditions in the developing world (until late 2008), improving IFC appraisal and structuring quality, and the move to larger projects. It appropriately notes that the performance of projects will likely deteriorate as

a result of the growing global financial and economic crisis.

In its recommendations, the report notes the importance of managing the tension between protecting the existing portfolio and responding to opportunities during the crisis. We fully agree and stress that this will require careful attention. We would emphasize that as the depth and breadth of the crisis is expanding, IFC needs to do more to manage the risk to its current portfolio, including not only the balance between its current portfolio and new investment opportunities, but also mitigating conflict of interest that may impede collaboration with the Bank and the IMF as noted in the report. Furthermore, we would add that IFC is likely to face a lot of demand for additional financial restructuring of existing operations, given the global liquidity constraints and the drying up of credit markets. In addition, there will be increasing demand for restructuring specialists. IFC should begin to staff up for the expansion of this type of work. Moreover, on the AS side, there is also likely to be increased demand for the design of more appropriate regulatory structures, starting with finance (banking system, non-bank financial sector, stock markets), but extending to many sectors, as well as for financial restructuring and consolidation of business. This has strong implications for the type of expertise and staffing that will be necessary. It also gets at the issue of how much of this is to be market driven and market priced, vs. a public-good contribution to development of better systems.

Performance of IFC's Advisory Services

The report examines in detail the performance of IFC's AS, and shows how its rapid growth is creating challenges, which need to be addressed to ensure success and sustainability of this business line. It also outlines four concrete recommendations: develop a global strategy for the group, pursue more programmatic AS interventions, improve execution of the pricing policy, and strengthen performance measurement and internal knowledge management. We generally agree with the thrust of the recommendations. However, we would like to make a general observation and then some specific suggestions.

We were surprised that the AS staff has grown by a factor of seven since 2000, and that it now accounts for roughly 45 percent of the total staff of IFC. With AS expenditures of \$245 million in fiscal year (FY) 2008 (roughly twice that in FY05 and a tenfold increase since 2001), it certainly is an area that needs explicit attention and appropriate management. The relative size of this effort is quite impressive. According to the IFC FY08 financial statement, total IFC administrative expenses were \$549 million. It is not clear whether the expenditure for AS is included in this figure, since the financial statement shows a separate expense line of \$123 for AS. In any event, the expenses for AS are anywhere from one-third to one-half the total administrative expenses for IFC, which is certainly a large share, whichever way it is counted. IFC has *de facto* become a hybrid finance and consulting organization. This is a very substantial shift, and one that no organization that we know of has ever done before. The closest one we can think of that has somewhat of a similar role is Goldman Sachs.

Many of the challenges described in the report are typical of rapidly growing organizations—balance between different operations, internal and external alignment, organization and delivery of services, staffing, quality, monitoring and evaluation (M&E), and results. What makes these particularly challenging in the case of IFC is the very rapid and seemingly uncontrolled growth of AS, complex interaction between AS and investment operations, and the broad and somewhat difficult measure of results. The last, as defined in the IEG report, includes relevance, development effectiveness, and additionality. All three of these measures go beyond a clear summary indicator such as profitability, which is the typical performance indicator in commercial enterprises. IFC's three result indicators are difficult to quantify because they include a large element of public goods and broader social and non-market objectives. An additional complication is that half of the funding for advisory services comes from donor funds, and that these are targeted at particular development objectives and or regions. All of this makes evaluation of results very difficult.

Therefore, our general comment is that in order to have a better evaluation of results of IFC's AS it is necessary to have a clearer articulation of the strategy and plan for those services. The reason for this is that there are very strong interdependencies between the objective and overall strategy for IFC's AS—how IFC is to organize and operationalize that model, and how results are to be measured and evaluated. Therefore, we would like to reinforce and highlight the critical importance of the first recommendation in the IEG report—that “IFC set out an overall strategy for IFC advisory services addressing the need for a clear vision and business framework and link with IFC's corporate strategy.”

There is a strong and urgent need to develop a robust and integrated plan beyond just the strategy. This plan should cover five key areas:

- a. *The vision/mission:*** What does the IFC really want to accomplish with this business? To do this, IFC needs to sort out three different objectives of advisory services:
 - i. supporting its investment operations¹
 - ii. providing public goods for the development of the private sector in developing countries
 - iii. operating as a profitable fee-based consulting service at market prices
- b. *The strategy***
 - i. Which clients to focus on (e.g., governments, investment operations clients, others unrelated to investments)?
 - ii. What service lines to offer them and how to deliver them? Where is there a true gap? Where can the IFC be distinctive? And thus, how to streamline the current offerings?
 - iii. What geographical areas to prioritize?
- c. *The operating model***
 - i. What key processes to put in place?
 - ii. How to leverage learning from other knowledge organizations?
 - iii. What partnership opportunities to pursue? Who is good at what? Whom to partner with and for what? (Here more attention needs to be given to how to partner more effectively with the World

Bank, as well as with other multilateral development organizations that provide AS, as well as with think tanks, academic institutions, consulting firms, and business associations.).

d. *The financing model*

- i. What should be the combination of donor and IFC funds for different products and programs?
- ii. What should be the pricing model for services to different clients?
- iii. What implications does the use of donor funds have for pricing of services targeted by donors?
- iv. How big are each of the bottlenecks in applying the agreed pricing policy?
- v. How big a risk does the IFC face in enforcing the pricing policy?
- vi. What do the financials look like under a few different scenarios?

e. *The organizational model*

- i. Organization structure: How to pull together the various units into a robust organizational structure?
- ii. Collaboration: internal (e.g., with the WBG) and external organizations
- iii. Staff mix: What's the right model to ensure sustainability in the long term? (The current mix relies very heavily on short-term external consultants and appears to be unsustainable and incompatible with high-quality services and effective knowledge management)
- iv. Skills/experience of the internal staff.

Developing this plan quite urgently is critical. IFC should dedicate the required resources as soon as possible. Bringing in an experienced and objective external firm to drive this should be considered.

We would also like to highlight four critical issues: pricing, knowledge management, staff mix and skills, and M&E.

Pricing is an important issue to address, and should be included in the plan as suggested. We agree with the need to move to a more value-based pricing policy over time. This could also help attract and provide more attractive compensa-

tion to experienced consultants and help address some of the staff mix and experience issues. However, more work needs to be done to understand how to transition from the current free model to the current cost-recovery pricing policy, and then to a value-based model. Quantifying and assessing the risks to the business will be a critical component of this work stream.

This is far from an easy task because an effective unit of analysis for working with knowledge would have to be developed. Few organizations have effectively de-coupled knowledge from other parts of a consulting assignment, such as a construction project, a finance system, or a marketing strategy. By not doing this, they can charge for the knowledge they have developed as incorporated in their overall charges. However, to charge just for knowledge itself may prove a difficult thing to gain acceptance in the marketplace. All of these things would need to be thought out and established before any sort of value charging could occur.

Charging for these knowledge services on a value basis would involve the IFC in entering a marketplace that has some very established players. While many of these players may call their offerings in this area by different names, they all are interested in this sort of work and they would show up in any bidding situation. This would include the major management consulting firms, the large systems integrators, and many investment banks (when they get back on their feet) and even law firms, foundations, as well as many other nongovernmental organizations. This market is very large. Depending on how it is measured, there have been estimations of between \$5 billion and \$100 billion in expenditures per annum. The most-valued organizations are able to command fees that are significantly higher than their costs, and in exchange deliver multiple of these fees in terms of value to their clients. For the IFC to effectively capture part of this market, it will need to: (a) clearly define its focus, strategy, and competitive advantage, (b) better understand the real bottlenecks and risks in enforcing the current pricing model, (c) quantify the true value of its AS to its clients, (d) agree on how much of this value

to charge as fees to clients, and (e) put in place a robust process to transition over time to a value-based pricing model.

Knowledge management: The IEG report notes the very disorganized way in which AS are provided with very little interaction and sharing of knowledge across the different regional offices, insufficient blending of global best practice with local knowledge, and lack of coordination with other knowledge providers. The plan needs to consider in greater detail the very different processes that are at the heart of any knowledge-based organization. These usually are understood as specifically focusing on knowledge development, knowledge retention, and knowledge transfer. Each of these has particular work routines and practices that are well understood and pretty much universal among knowledge-intensive organizations. In order for IFC AS to be effective in these roles, it will have to institute these processes in a much more established and systematized way than currently exists.

Strong advisory service organizations have developed very robust knowledge management processes. As such, there is indeed a clear need for the IFC to strengthen its internal knowledge management. As recommended in the report, we would encourage benchmarking of not only other MDBs but also, and perhaps even more importantly, of world-class commercial knowledge organizations—both McKinsey & Company and Goldman Sachs come to mind.

Organizations like McKinsey, which are based on these processes, have knowledge-intensive cultures that are overtly managed. These processes are well integrated with the overall work processes of the organization. There are many analyses and descriptions of these types of cultures but they are generally based on things like strong internal cultures, incentives, social norms, management signals and symbols, and explicit and overt strategic directions. Again, these are all significantly different from what one would find in organizations more focused on financial routines and operations. How do these organizations manage and share knowledge? What is relevant for the types of

knowledge and services provided by IFC? What works? What lessons have they learned? These should be analyzed as part of the integrated plan. We recommend that IFC set up a small advisory board (with perhaps three members) who have extensive experience in knowledge-based organizations and also have some background in finance or with nongovernmental organizations. They could help keep IFC AS abreast of work processes and technology developments in knowledge management, as well as theoretical developments in this area

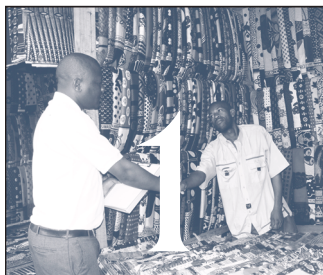
Staffing and skill mix: That the current ratio of external consultant to internal staff is roughly one to one, and three to one in the field vs. headquarters, raises issues of how to ensure quality, how to share relevant knowledge, and how to keep IFC expertise up to date. The current model, which relies extensively on short-term external consultants and less-experienced internal staff, is clearly not sustainable. There is a strong need to upgrade skills internally; the best way to kick start the process is to hire experienced senior consultants from other firms, who will help put in place the required best practices and properly train the junior staff. There will likely be a need to complement them with external consultants in the short to medium term, but the medium- to long-term aspiration should be to rely primarily (and even almost exclusively) on experienced internal staff, while leveraging external consultants for very specific in-depth expertise/knowledge in critical areas. To reduce the variability in the quality of external consultants, IFC should consider entering into partnerships with a few external firms/individuals and work primarily (and if possible, exclusively) with them.

Monitoring and evaluation: We fully agree with the recommendation of the IEG report for the need to strengthen performance measurement. IFC introduced a new M&E system in 2006 “including standardized project approval, supervision, and completion reports.” However, the IEG report states that actual staff compliance in properly filling in the report was poor. This reflected poor training, as well as constant changes in the criteria to be used in the evaluation and too much reliance

on self-assessments. The IEG report also notes that unlike the case for investment operations, the M&E system for advisory services does not have targets on development impact or established M&E indicators of impact on a programmatic level, reflecting the immaturity of the system. Thus, it is clear that M&E needs to be strengthened and that it is necessary to go beyond project completion reports to independent field assessments. We would also stress that developing an effective M&E system also depends on having a clear fix on the purpose and objectives of the advisory services. Hence the importance of the need to develop a clearer over-

all vision and plan for the role of advisory services as emphasized above.

We would like to thank IEG for giving us the opportunity to review the report and provide our perspectives. As mentioned at the beginning of this statement, we think overall the report is very good. We would like to commend the IEG team for a job well done. We have attempted to complement the report by highlighting some of the issues that it has raised, and making some suggestions for the consideration of IFC Management and of the Board as IFC moves forward.



Strategic Context

Throughout the developing world, the private sector has been a key contributor to growth and poverty reduction in recent years. The current global financial and economic crisis places these hard-won gains under severe threat—due to much tighter credit conditions, weaker capital inflows, and reduced developed country import demand. It has also revealed certain market and nonmarket failures and imperfections, including the heavy price of inadequate oversight, regulation, and risk management.

Development institutions can play important financial and nonfinancial roles in response to the crisis. These include providing finance to viable enterprises where it is now lacking (thus sending positive signals to other investors as well), acting as an honest broker in financial restructurings, and offering advice that helps address institutional weaknesses, for instance, with regard to effective regulation and good governance.

This report examines IFC's experiences in financing development (Part I) and in providing knowledge for development (Part II), with a view to informing IFC's strategic and operational directions, including its part in responding to the current global crisis.

This chapter sets the scene for the evaluation. It considers the growing participation of the private sector in development in the last decade and the effects of the global financial crisis on the private sector in developing countries, and it outlines key implications for IFC.

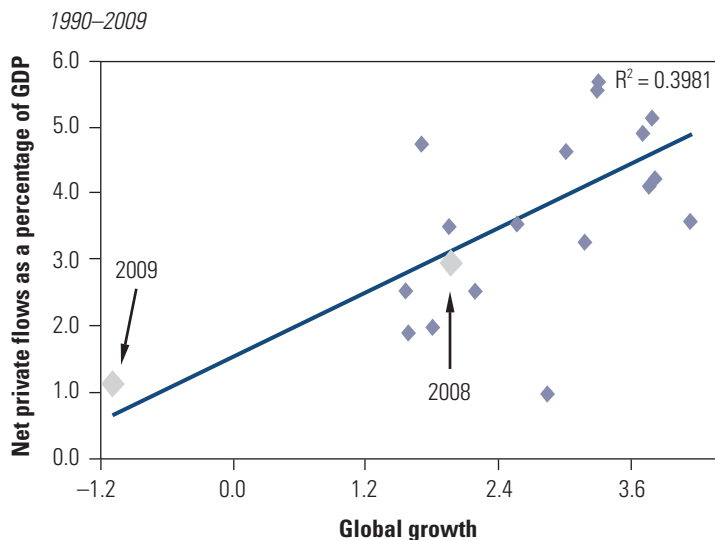
Growing Participation of the Private Sector in Development

In the last decade, many developing countries have experienced strong rates of economic

growth, typically accompanied by falling levels of poverty. The private sector has been a key contributor to this growth through new capital investment, but also through innovation and entrepreneurship, which has helped create jobs and open up new markets. As a general rule of thumb, countries with the highest levels of private investment and those that have made the biggest strides in bridging the knowledge and technology gaps (and thus enhancing productivity and competitiveness)—particularly through private initiative—have grown the fastest. (Figure 1.1 shows the relationship between private capital flows and economic growth, while figure 1.2 shows the connection between knowledge accumulation and future productivity.)¹

Across a broad range of developing countries, the private sector now plays a key role in economic sectors previously under the domain of the public sector. In many countries, low- and middle-income alike, the private sector now participates significantly in the delivery of transport (air, road, and rail), telecommunications, and health and education infrastructure and services—all facilitators of growth. In 2007, commitments to infrastructure projects with private participation in developing countries amounted to \$158 billion (1.1

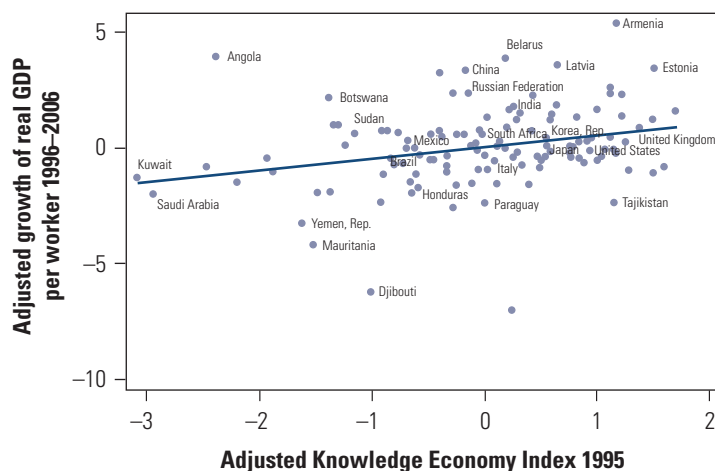
Figure 1.1. Stronger Growth Has Generally Been Associated with Increased Private Capital Flows



Source: Institute of International Finance (IIF).

Note: Net private flows and global growth as defined by IIF.

Figure 1.2. Knowledge Accumulation Is Key for Future Productivity



Source: World Bank Institute 2008.

Note: The Knowledge Economy Index is adjusted for differences in initial real GDP per capita and growth in capital per worker.

percent of their GDP), about a half of which was in telecommunications.² Overall private fixed-capital investment in developing countries, as a share of GDP, was 17.2 percent in 2007, com-

pared with public fixed-capital investment at 6.4 percent.³

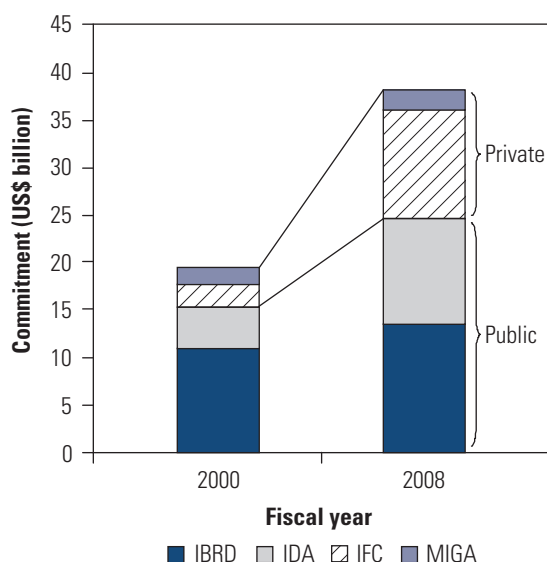
The importance of the private sector to developing country growth has been reflected in shifts in the makeup of World Bank Group financing and knowledge services. In 2000, the Bank Group's share of financing to the private sector in developing countries (through IFC and MIGA) amounted to \$4 billion, approximately a fifth of overall Bank Group financing. By 2008, driven in particular by a fourfold increase in IFC's investment activities, the private sector share accounted for about \$13 billion, or more than a third of Bank Group financing (figure 1.3). This figure does not include indirect support to the private sector through, for example, World Bank loans to governments designed to improve industrial competitiveness. Thus, in effect, the focus on the private sector is even greater than this breakdown indicates. The share of private sector-oriented activity, including Bank lending to sovereign entities for "financial and private sector development," comes to \$15.4 billion (or, 40 percent).⁴ The makeup of Bank Group knowledge services follows a similar pattern, with just under a half of that now geared to benefit the private sector (figure 1.4).⁵

Other major development institutions, such as the Asian Development Bank (ADB), African Development Bank (AfDB), European Development Bank (EBRD), and Inter-American Development Bank (IDB), have similarly recognized the importance of the private sector in generating jobs and growth, and have increased their financing and advisory activities devoted to the private sector. In EBRD's case, the private sector share of annual business volume in 2007 reached 86 percent, while for the first time, the majority (60 percent) of AfDB operations in 2007 were directed at the private sector.⁶

Global Financial Crisis

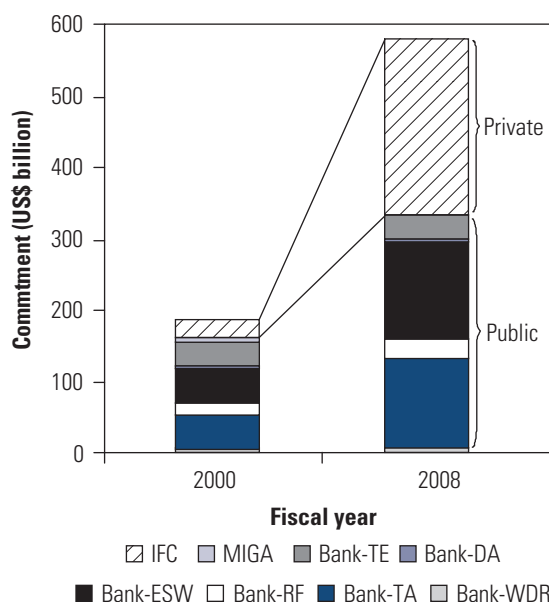
The current global financial crisis, coming soon after a food and energy crisis, places many of the hard-won gains of the last decade under severe threat.⁷ The crisis began in the developed world, but it has spread rapidly to the developing world. As a result, GDP growth in developing countries

Figure 1.3. Growing Share of Bank Group Financing to the Private Sector



Source: World Bank, IFC, and MIGA databases.

Figure 1.4. Bank Group Knowledge Services Are Increasingly Aimed at the Private Sector



Source: IFC, World Bank, and MIGA databases.

Note: TE = training external; DA = donor coordination; ESW = economic & sector work; RF = research services; TA = technical assistance; WDR = World Development Report; MIGA Advisory Services (investment promotion work) is now part of Foreign Investment Advisory Services/IFC.

is expected to fall to 4.5 percent in 2009, from 7.9 percent in 2007, driven largely by tighter credit conditions, weaker capital inflows to middle-income countries, and a sharp reduction in global import demand.⁸ Net private capital (debt and equity) flows are projected to fall by about half, dropping from \$1 trillion in 2007 to \$530 billion in 2009 (from 7.7 percent to 3 percent of developing country GDP). At the same time, remittances workers send to their home countries (another important source of capital inflow, which reached an estimated \$283 billion in 2007) are also projected to decline.⁹ Experience suggests that whether crises start in the real (nonfinancial) or the financial sector, they have negative development and welfare effects across the board because of the concomitant drop in nutrition, education, health care, and social spending.

The crisis, while different in origin and scope from prior developing country crises, has similarly exposed weaknesses in the functioning and effectiveness of financial markets, as well as in the various nonmarket institutions that oversee them.¹⁰ Many banks and nonbank financial institutions in

advanced economies have exhibited inadequate levels of risk management and governance, which have put their balance sheets (and, *inter alia*, their financing activities in developing countries) at risk. On the other hand, public sector institutions have also failed in their regulatory and oversight duties.

Aside from the financial crisis, which has major economic and social ramifications, other substantial development challenges remain. They include the perennial demand for basic needs infrastructure, such as hospitals and schools. Another pressing need is to tackle climate change. Unless current trends are reversed with respect to carbon emissions and the underlying patterns of resource use, scientists concur that prospects for sustaining any degree of economic growth will be seriously undermined. Yet, the crisis of climate change is receiving less at-

The current global financial crisis places many hard won gains under threat.

tention at the present time, largely because of heightened concern about the current financial crisis. Nonetheless, it presents a critical development issue and is the toughest challenge to continued growth prospects, which will require the dedicated attention of policy makers and business leaders alike.

Implications for IFC

Development institutions, such as IFC, exist to help tackle imperfections in the functioning of market and nonmarket institutions. Accordingly, they are expected to play key roles in responding to the financial crisis.

First, IFC can help address funding gaps that have appeared with increased frequency due to tighter credit conditions. In doing so, it is less the actual amount of financing (the private sector

In the wake of the crisis, IFC has a vital part to play.

operations of development institutions usually account for only a small percentage of GDP), but more the signal that such financing can send to other investors, which, in turn, can enhance their confidence in investing in a certain country or sector. This effect is based primarily on the long-term orientation and the track record of an institution like IFC as a reputable investor in emerging markets.

Second, IFC can play a number of nonfinancial roles. At an individual project level, the Corporation can serve as an honest broker between competing interests in a financial restructuring. More broadly, IFC can offer advice that helps tackle institutional shortcomings, including policies, laws, and regulations covering the financial and corporate sectors (in partnership with the Bank and others), as well as governance and risk management by private sector entities. Of course, action at each of these levels applies to basic needs infrastructure, in addition to climate change miti-

gation and support for environmental and social sustainability more generally—especially through transfer of knowledge about best practices and sustained capacity-building measures. IFC's role in environmental and social stewardship will need to increasingly go beyond the specific performance of individual projects to cover the aggregate impacts its critical presence can bring in sectors, ranging from agribusiness to infrastructure.

As the world reexamines the roles of governments and markets in the wake of the financial crisis, IFC has a vital part to play in supporting private sector development with sound regulatory frameworks. It would be valuable for IFC to demonstrate both the weight of market distortions and excessive regulations on the one hand, and the importance of value-adding means for prudential oversight, risk management, and social and environmental safeguards and safety nets, on the other hand.

With a view to informing IFC's future strategic and operational directions, including its evolving response to the crisis, this report examines IFC's effectiveness in two areas: i) financing development, and ii) providing knowledge for development. Part I of the report tackles the first theme, focusing on the development results achieved among IFC investment operations that matured between 2006 and 2008, with a look back at IFC's experiences during previous crises. Part II deals with the report's main theme, the first examination of the Corporation's experience with its Advisory Services (AS) interventions—knowledge services IFC provides to either private companies or governments in support of sustainable private sector development, and which have grown tenfold since 2001. This report thus considers, for the first time, the performance of both arms of IFC's business (that is, investments and AS), including situations where these instruments have been combined.

Part I

Financing Development



Performance of IFC Investment Operations

IFC's portfolio of investment operations (loans, equity, and other financial instruments) continued to expand in 2008, providing further opportunities for IFC to extend its development reach. This chapter examines the nature of this portfolio growth, and then covers three main themes: i) project development results, through a review of the performance of IFC-supported projects that reached early operating maturity between 2006 and 2008; ii) a look at the impact of past crises on the performance of IFC-supported projects; and iii) a discussion of implications for IFC's response to the current crisis. Table 2.1 summarizes the evaluative tools and main data sources that IEG used in evaluating IFC investment operations.

Project development results (along with IFC financial returns) improved overall, including among most strategic sectors, between 2006 and 2008. However, performance in Africa, Asia, and Middle East and North Africa, as well as in non-telecommunications information technology (IT) continued to lag.

Stronger overall results reflected several factors: i) the exit of a particularly weak performing group of projects that matured in 2005; ii) more favorable economic conditions in much of the developing world; iii) improved IFC project appraisal and structuring quality; iv) a conscious move by IFC toward larger projects; and v) especially strong performance in Europe and Central Asia (ECA) and in Latin America and the Caribbean (LAC), where the majority of mature operations are located.

Given the current global financial crisis, IFC-supported projects in early implementation are expected to be the hardest hit in development

terms. Such projects represent about 40 percent of IFC's outstanding portfolio (62 percent by volume), making the downside risk to IFC's development return substantial.

Going forward, strong IFC work quality and additionality will be required (e.g., in making well-timed, catalytic, new investments; providing corporate finance; acting as an honest broker in restructurings; and helping to improve governance and regulation).

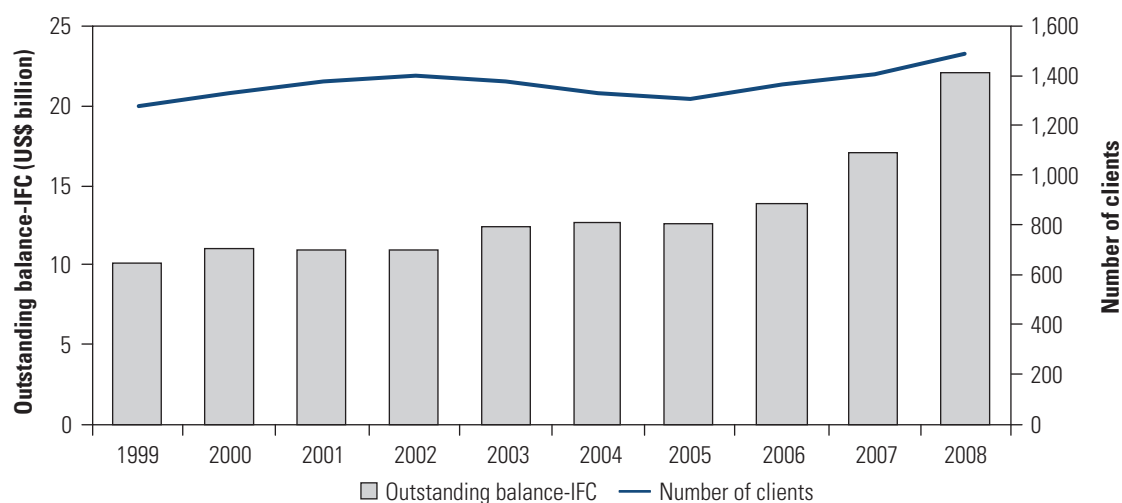
Portfolio Pattern

IFC's portfolio of investment operations (loans, equity, and other financial instruments) continued to grow in the last year. The cumulative volume of active, committed investments increased by about a quarter from \$32.7 billion in fiscal year (FY) 2007 to \$40 billion in FY 2008, resulting in an increase in the outstanding disbursed balance from \$17 billion to \$22 billion (see figure 2.1). The number of projects in the portfolio rose by a lesser

Table 2.1. Methodologies Employed by IEG to Evaluate IFC Investment Operations

Evaluation activity	Focus	Main data sources
<i>Meta-analysis</i> of IFC investment portfolio and new business	Results (relevance)	IFC investment operations database, World Bank database
<i>Meta-analysis</i> of secondary data on foreign direct investment, multilateral development bank	Results (relevance)	World Bank database, multilateral development bank annual reports
<i>Validations</i> of mature IFC investment operations	Results (outcomes) IFC additionality	178 IEG project validations, completed between 2006 and 2008; 178 IEG additionality reviews for IFC investments, completed between 2006 and 2008
<i>Risk profiling</i> of mature and new IFC investment operations	Risk-adjusted expected development outcomes	565 IEG risk-layering reviews, completed between 2000 and 2008; Institutional Investor Country Credit Risk ratings
Project & country <i>case examples</i>	Results and IFC additionality	IEG project validations, country & sector studies

Source: IEG.

Figure 2.1. IFC's per Client Exposure Has Doubled in the Last Ten Years

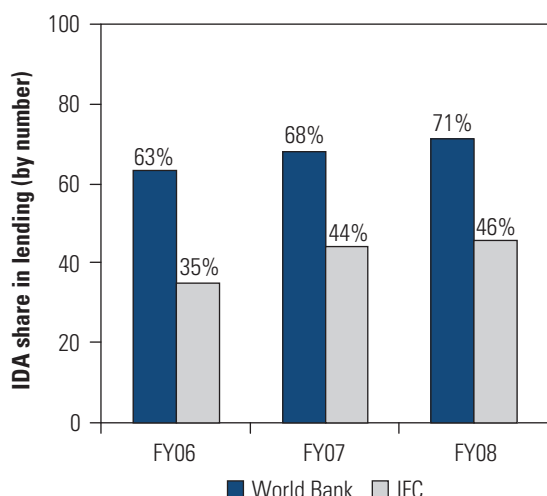
Source: IFC database.

order (8 percent), reflecting a general preference for larger investment operations (increasingly involving corporate finance rather than project finance) and a more wholesale approach to reaching small- and medium-sized enterprises (SMEs) through financial intermediaries and larger com-

panies. Per client exposure also increased with the number of clients rising by only 5 percent.¹

How strategically consistent are IFC's operations? They are expected to meet one or more of these corporate strategic priorities: focus on frontier

Figure 2.2. IFC and World Bank IDA Operations Increased over FY06–FY08



Source: IFC and World Bank databases.

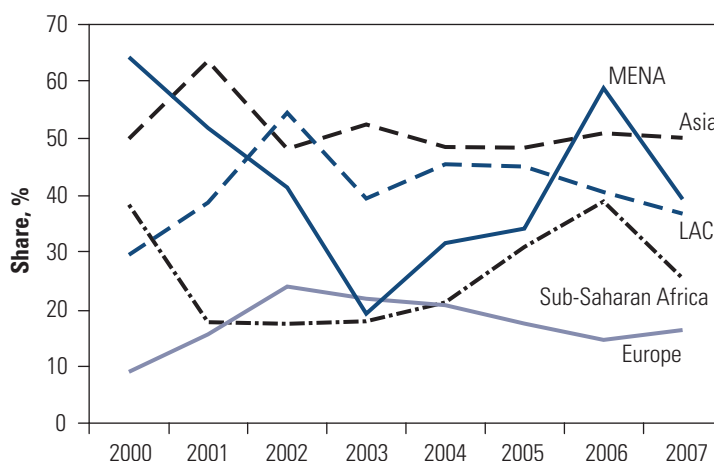
Note: Calculated as number of IDA and IDA-blend operations/total operations.

markets (International Development Association, or IDA, countries and frontier regions of middle-income countries, as well as SMEs and agribusiness); address constraints to growth in infrastructure, finance, or health and education; establish long-term partnerships with emerging players; support South-South investment; and address climate change and environmental and social sustainability. Because some of these objectives are relatively new or hard to measure (e.g., climate change and sustainability), data are not yet available to assess resource allocation patterns against all of them. For those objectives with trackable data, most new commitments between 2006 and 2008 featured at least one strategic priority.² Overall, this suggests at least a minimal level of pursuit of key strategic objectives through individual investment operations—given that the objectives are couched in such a way that it is difficult not to achieve at least one objective. Since it became a strategic priority, allocation of investment resources to IDA countries has increased (figure 2.2).³ The pace of growth in IFC's investments in IDA countries reflects the fact that as a minority financier, IFC needs the support of commercial co-financiers to pursue each new operation, which can be challenging in difficult market environ-

ments. Thus increasing IFC's presence in these countries will of necessity be a gradual process.

The strategic priorities of IFC and the Bank Group broadly address key developing country needs, although it is also useful to compare patterns in IFC's investment operations with the private sector lending operations of other development institutions and patterns of foreign direct investment (FDI). This helps identify the extent to which IFC appears to be addressing needs that others are not tackling. Figure 2.3 shows that by region, IFC has had a greater share of multilateral development bank (MDB) investments in Asia, Middle East and North Africa, and Latin America and the Caribbean (where total MDB presence tended to be smaller, which means the field of multilateral lenders is more crowded in Europe and Central Asia and Sub-Saharan Africa). Table 2.2, meanwhile, shows that IFC has been oriented more toward countries with lower levels of FDI/GDP. This indicates that IFC's resource allocation has generally been to developing countries that have been relatively lacking in external finance. However, in Europe and Central Asia, East Asia and the Pacific, and Latin America and the Caribbean especially, which account for around two-thirds of IFC's investments, the Corporation needs to be particularly selective in its investments, given the relatively high flows of private capital to these regions.

Figure 2.3. IFC Has Made Up a Higher Share of Multilateral Development Bank Finance in Asia, MENA, and LAC



Source: Annual reports of other multilateral development banks.

Note: MENA = Middle East and North Africa, LAC = Latin America and the Caribbean.

Project Development Results

Overall Results

IEG's evaluations show that IFC-supported project development results, along with the financial returns, improved overall. In the three-year period 2006–08,⁴ 72 percent of projects (85 percent by volume) achieved outcomes that, on balance, met or exceeded specified business, economic, environmental, and social performance criteria, thus making positive contributions to private sector development beyond the project through, for example, demonstration effects and linkages.⁵ This compares with

Project development results and financial returns improved overall.

63 percent of projects (75 percent by volume) achieving high outcomes in 2005–07 (figure 2.4). On a cumulative basis, in the period since independent evaluations started in 1996, up to and including 2008, 62 percent of projects (70 percent by volume) have achieved high development outcome ratings (figure 2.5). As in the past, larger operations were more likely to meet performance benchmarks than the smaller ones.

Stronger overall results reflected several factors: i) the exit of a particularly weak performing group of projects that matured in 2005. Fifty-one per-

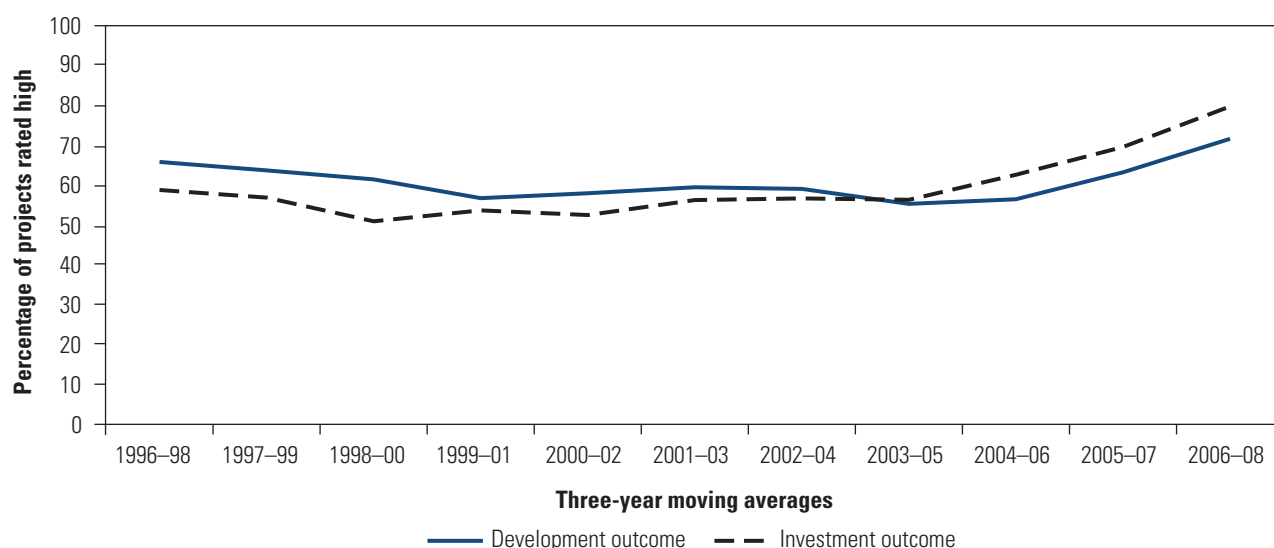
Table 2.2. IFC Tended to Invest in Countries with Lower Prior Levels of Foreign Direct Investment to GDP

Average FDI/GDP (2005–06)	Share of IFC investments (2007–08)	Share of developing country FDI
0–1%	6%	0.2%
1–2%	21%	13%
2–3%	29%	27%
3–4%	17%	32%
4–5%	5%	4%
5–6%	4%	5%
6–7%	5%	5%
7–8%	6%	9%
8–9%	0%	0%
> 9%	8%	6%

Source: World Bank Group databases, as of June 30, 2008.

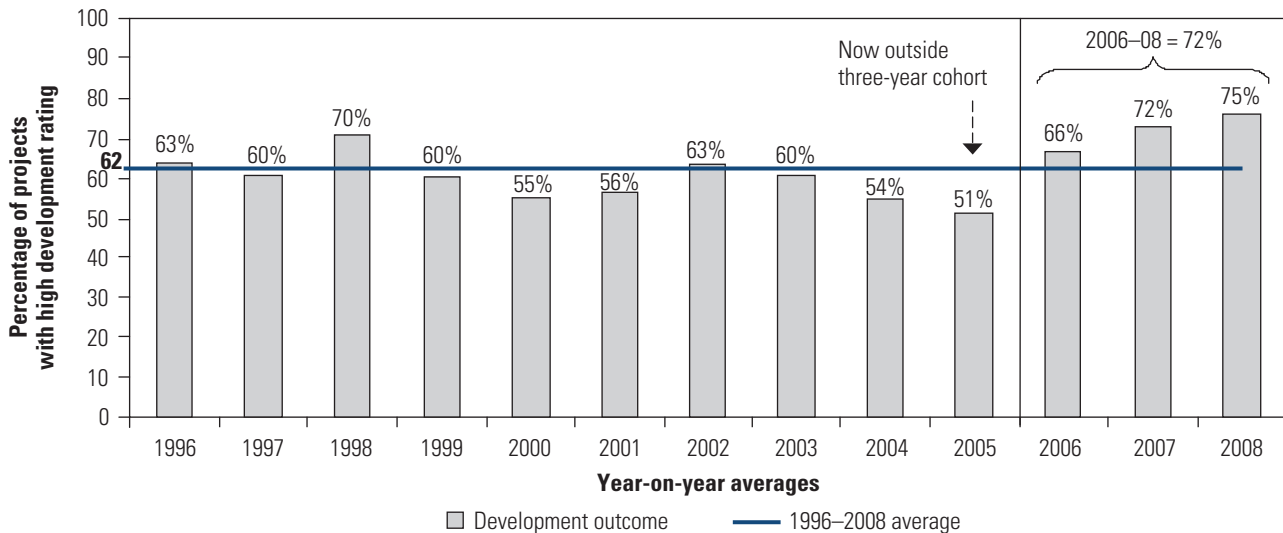
cent of projects maturing in 2005 realized high development outcomes, compared with 75 percent of projects that entered the three-year cohort in 2008;⁶ ii) more favorable economic conditions in much of the developing world until

Figure 2.4. Project Development Outcomes and IFC Investment Returns Improved in the Last Three Years



Source: IEG.

Note: A high rating means the project met or exceeded benchmarks.

Figure 2.5. Improvement in 2006–08 Followed Historically Weak Performance in 2004–05


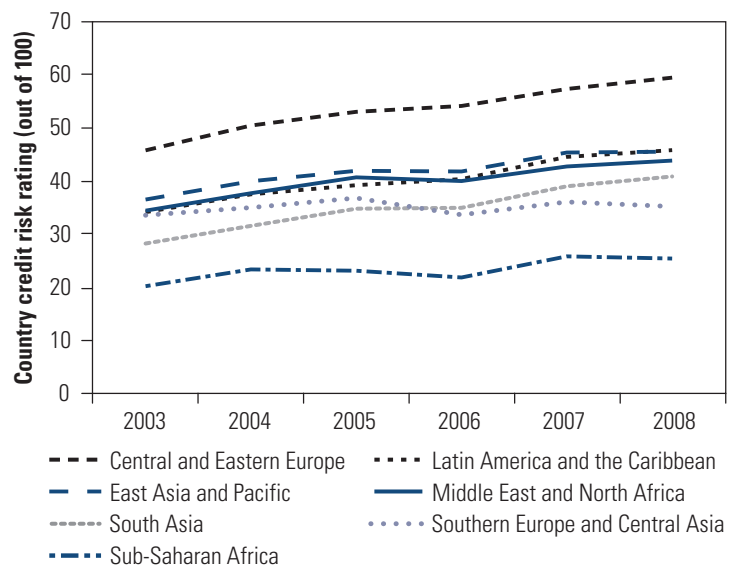
Source: IEG.

Note: A high rating means the project met or exceeded benchmarks.

late 2008 (figure 2.6), by which time most evaluated projects had been substantially implemented;⁷ iii) improved IFC project appraisal and structuring quality (figure 2.7), suggesting steps taken by IFC—such as the establishment of credit training for all new investment officers in 2001 and organizational changes implemented between 2001 and 2003—including a major departmental reorganization in 2002, are starting to have traction; iv) a conscious move by IFC toward larger projects, which have been more likely to achieve high ratings than smaller projects, due in part to greater internal scrutiny; and v) especially strong performance in Europe and Central Asia and in Latin America and the Caribbean, where the majority of mature operations are located. The upward trend is consistent, to the extent data are comparable, with the experience of ADB and EBRD.⁸ (Boxes 2.1 and 2.2 describe the rating dimensions that are used in project evaluations. Box 2.3 provides illustrations of projects with high and low development outcome ratings).

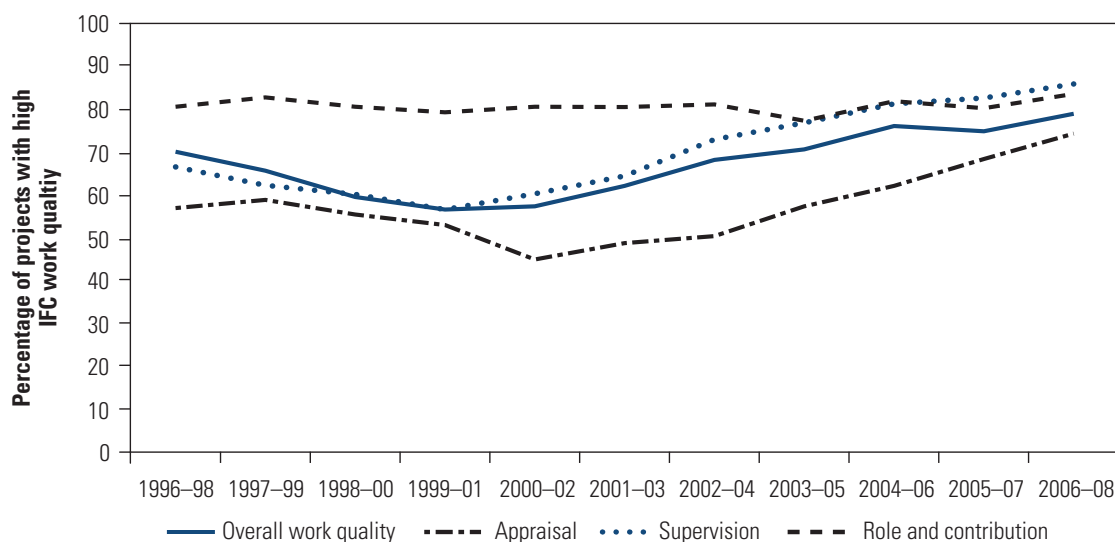
The year 2008 presents a complex picture. The results, for the most part, reflect the performance of projects that matured well before the onset of the crisis. Nevertheless, a decelerating trajectory

was still discernible in the latest evaluations, with negative implications for development outcomes going forward. This is consistent with trends observed in the context of past crises.

Figure 2.6. Country Business Climate Risk Improved in Most Regions


Source: Institutional Investor.

Note: A higher rating equates to lower risk.

Figure 2.7. IFC Work Quality Improved Again

Source: IEG.

Note: High work quality means that the project had satisfactory or better work quality.

Box 2.1. How Are Project Development Outcomes Rated?

Project development performance ratings are assigned in the following dimensions:

Project business success: Returns relative to a company's cost of capital (real sector); associated subportfolios or asset growth contribution to an intermediary's profitability, financial condition, and business objectives (financial sector).

Economic sustainability: Economic rate of return (real sector). This indicator also takes into account job creation, net gains or losses by nonfinanciers, nonquantifiable indicators, and contributions to widely held development objectives; economic viability of the financial institution and its sub-projects, and contribution to improving living standards (financial sector).

Environmental and social effects: i) Consistency with IFC requirements; and ii) net impact of the project or sub-

projects, in terms of pollution loads, conservation of biodiversity and natural resources, and in a broader context, social, cultural, and community health aspects, as well as labor and working conditions and workers' health and safety.

Private sector development impacts (beyond the project): Demonstration effect in creating sustainable enterprises capable of attracting finance, increasing competition and linkages, and bringing about improvements in regulation.

These ratings are then synthesized (not averaged) into a single **development outcome** rating, on a six-point scale from highly successful to highly unsuccessful. (The full rating criteria for each of the indicators are set out in appendix B).

Box 2.2. IFC Investment Outcome Rating

IFC investment return ratings are based on the gross profit contribution quality of an IFC loan and/or equity investment (without taking into account transaction costs or the cost of equity capital):

Loans: Satisfactory provided they are expected to be repaid in full, with interest and fees as scheduled (or are prepaid or rescheduled without loss).

Equity: Satisfactory if they yield an appropriate premium on the return of a loan to the same company (a nominal US\$ internal rate of return greater than or equal to the fixed loan interest rate, plus an instrument risk premium).

More than a decade of evaluation and econometric testing shows that project development results hinge significantly on two types of factors:

- *Factors external to IFC*—notably, changes in country business-climate risk, sponsor risk (the sponsor’s experience, financial capacity,

commitment to the project, and governance/business reputation), and product competitiveness risk (which captures the project’s underlying competitiveness in the market in which it is operating, and any market distortions);

- *Factors internal to IFC*—the quality of IFC’s work in project appraisal and structuring, project supervision, and additionality. (See box 2.4 for details).

In general, external risks can be mitigated with strong work quality, although project development outcomes still tend to be lower when project risk exposure is higher (figures 2.8 and 2.9).

Region and Sector Results

IFC-supported projects in the predominantly middle-income regions of Southern Europe and Central Asia, Central and Eastern Europe, and Latin America and the Caribbean again achieved the best development outcome ratings, followed by South Asia, where development performance has significantly improved in the last three years. However, performance continued to lag in East Asia and the Pacific, and in the mainly low-income IDA regions of Middle East and North Africa and Sub-Saharan Africa—with barely half of the proj-

Box 2.3. Illustrations of High and Low Project Development Outcomes

Below are illustrations of high and low project development outcome ratings:

High—Infrastructure: The project was to upgrade, expand and operate an international airport in a country in Latin America and the Caribbean under a concession granted by the government, following a competitive bidding process. Although the revenues were lower than projected at the approval, the project was successful in improving the airport facilities and creating nearly 100 new jobs (63 percent increase). The success of the airport has had a positive effect on business through increases in tourism^a and improved perception of investing in the country. The project meets its environment, health and safety, and social compliance obligations.

Low—General manufacturing & services: The project involved constructing and operating an industrial estate in the Middle East. Only one year after IFC’s disbursement, the foreign sponsor suspended the project after construction delays and disputes with the local partner. In the following year, the project company shut down its operations after having only one short-term tenant, and laid off all of its nearly 150 employees. The project thus failed to achieve the expected job creation, promotion of foreign investment, and technology transfer. The company was diligent in meeting all the environment and social requirements during the construction phase, but the project stalled prior to completion and never resumed at the time of IFC’s exit.

a. Nearly 800 hotel rooms were added each year in the country between 2004 and 2007, partially as a result of the investment in the airport.

Box 2.4. Measuring IFC Work Quality

As much as possible, IFC's work quality is evaluated independently of the project's outcome so as to avoid bias in the ratings. For example, 11 percent of projects with high development ratings were nevertheless judged to have had low overall IFC work quality; and 33 percent of projects with low development ratings were still rated high for overall IFC work quality. Occasionally, however, actual project results can influence work quality ratings. Projects performing poorly can expose or exaggerate the materiality of weaknesses in IFC's structuring or supervision, which in the absence of significantly negative project performance might have gone undetected. Conversely, a project that is performing very well may be doing so despite shortfalls in IFC's work quality, which might, under different circumstances, have been more evident.

Project evaluations cover three aspects of IFC work quality:

Screening, appraisal and structuring: The extent to which IFC followed good practice standards, such as those identified in IFC Credit Notes. For example, with hindsight, did IFC identify key risk factors, mitigate them as much as possible, and arrive at realistic expectations for project and company performance? Actual results are compared to expectations and the main reasons for variance are analyzed to assess whether IFC's assumptions were well grounded in good practice, due diligence, and structuring, and the extent to which differences in actual results were due to extraneous effects, such as recognized but uncontrollable risks.

Supervision and administration: Following approval and commitment, and through to eventual closure, this indicator assesses how well IFC carried out its supervision of an investment. For

example, was IFC able to detect emerging problems in a company and respond expeditiously with appropriate and effective interventions?

IFC role and contribution: This indicator describes the extent to which IFC played a catalytic role in an investment, and made a special contribution. This aspect of work quality is analyzed in greater detail in chapter 2, within the context of IFC's additionality (for which this indicator is currently the closest proxy).

Each project evaluation contains lessons, which most often pertain to IFC work quality.

As a corollary exercise, IEG examined early review documents (PDS-ER) for 42 IFC investment projects approved in FY08, and selected based on a stratified random sample. In its PDS-ERs, IFC prompts investment officers to compare the new project with other IFC projects and to provide lessons learned. Ideally, there should be an undertaking to dig into the issues at appraisal, apply appropriate lessons, and mitigate risks/issues going forward. IEG found that in each PDS-ER reviewed, IFC suggested a number of lessons to be considered. However, in most cases, the sources of lessons were not provided and explicit comparisons to other projects were not made. In 18 cases (43 percent) other projects were listed, but in only 12 were explicit comparisons made. In many cases, the lessons listed were generic, and in a very few cases unrelated to the project being reviewed. Overall, based on IEG's review, IFC was found to be inconsistent in its identification of comparator projects and review of lessons. Lessons should come from projects with similar characteristics and be referenced accordingly.

ects in these regions meeting or exceeding specified benchmarks and standards, although with some slight improvement (figure 2.10).

Performance continued to lag in EAP, MENA, and SSA.

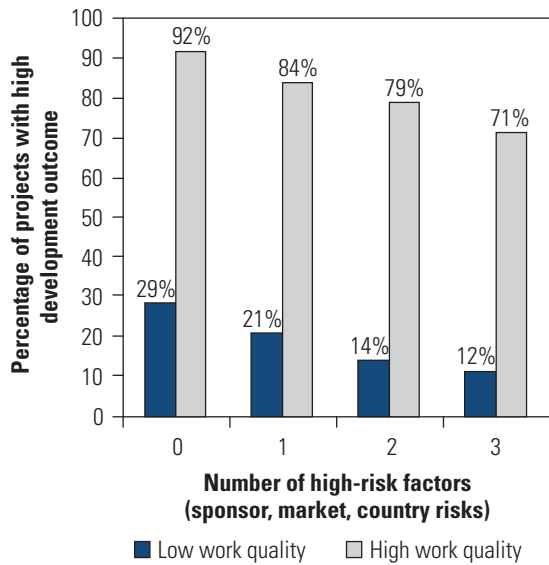
Differences in project risk characteristics, notably a project's relative exposure to country and sponsor risk, account for some of these differences. However, the quality of IFC's work in appraising, structuring, and supervising its investments has played a major role. Projects in Europe and Central Asia and in

Latin America and the Caribbean were generally carried out in better business environments, and were also typically larger, with better sponsors, and prod-

uct market competitiveness. They also exhibited strong IFC work quality. By contrast, projects in Sub-Saharan Africa, Middle East and North Africa, and East Asia and the Pacific featured relatively weak work quality (figure 2.11). Sub-Saharan Africa faced the highest external risks (figure 2.12). Of particular concern is that over a third of operations in East Asia and the Pacific (38 percent), and 29 percent in Sub-Saharan Africa, featured low additionality quality. In several cases in East Asia and the Pacific, IFC's financial additionality was weak, while in Sub-Saharan Africa, client commitment to operational and institutional changes that IFC sought to bring about was a key constraint to realizing the anticipated additionality.

Over a third of operations in EAP featured low quality of additionality.

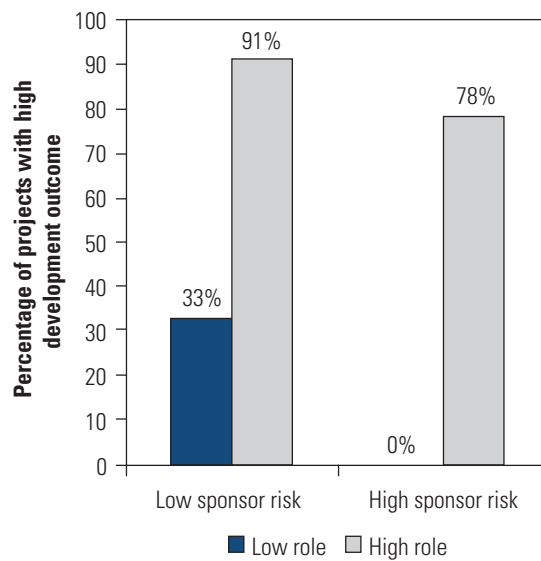
Figure 2.8. Strong IFC Work Quality Can Help Clients Overcome Risk



Source: IEG.

Note: Econometric analysis shows that each of the risks cited above can have a significant effect on project development outcomes.

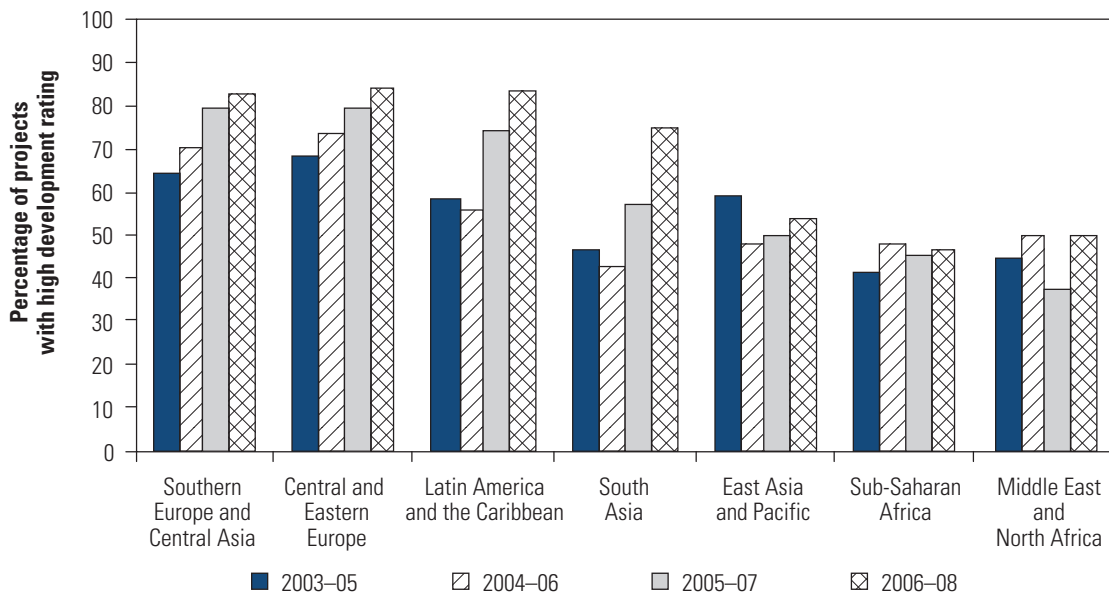
Figure 2.9. Strong Additionality Is Important for Effective Risk Mitigation



Source: IEG.

Note: "Role" refers to IFC's role and contribution to the project, in terms of being a catalytic agent, and making a special contribution.

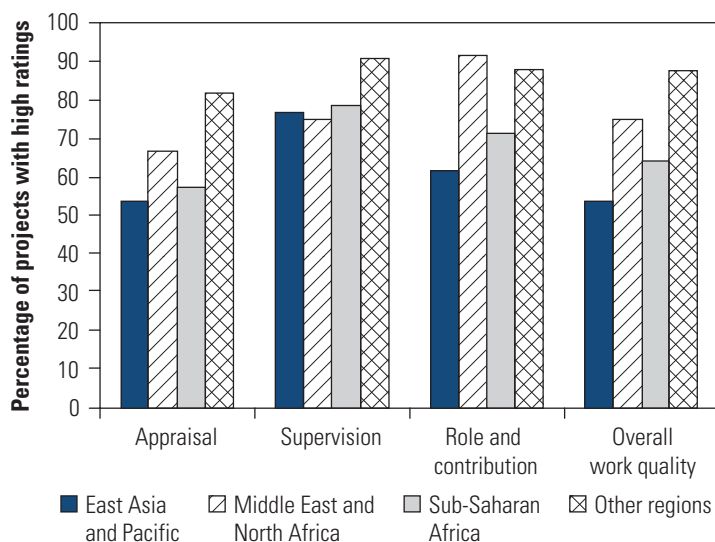
Figure 2.10. Better Ratings Again in Europe and Central Asia and in Latin America and the Caribbean



Source: IEG.

Note: Based on 2003-08 evaluations. "Europe and Central Asia" refers to Southern Europe & Central Asia and Central & Eastern Europe.

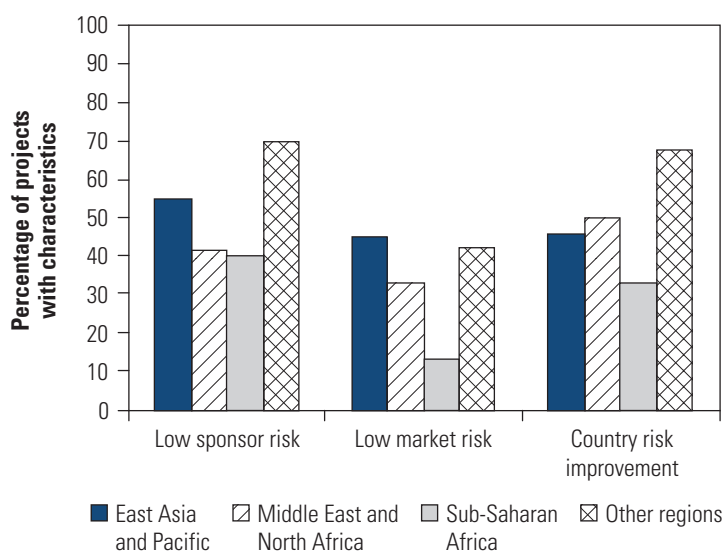
Figure 2.11. IFC Appraisal Quality and Realized Additionality Was Much Weaker in East Asia and the Pacific and in Sub-Saharan Africa



Source: IEG.

Note: Based on 2006–08 evaluations.

Figure 2.12. External Risks Were Highest in Sub-Saharan Africa



Source: IEG.

Note: Based on 2006–08 evaluations.

Performance was generally strong in IFC's strategic sectors.

Project performance was generally strong in IFC's strategic sectors of finance, infrastructure (physical and telecommunications), agribusiness, and

health and education (mainly in hospitals and tertiary/professional schools).⁹ However, it was much weaker in nontelecommunications IT (Internet and software). Eighty-six percent of telecommunications projects achieved high development outcome ratings, compared with 20 percent of Internet and software projects. Across other sectors, Equity Funds Department projects again achieved strong development outcome ratings, while oil, gas, mining, and chemical operations performance lagged (figure 2.13).

Sector variations, to some extent, reflect differences in project risk exposure, but also IFC work quality and additionality. Risk exposure was a clear factor in weak nontelecommunications IT projects, most of which were small operations involving inexperienced sponsors and unclear product competitiveness. However, work quality was also well below par: high in just 40 percent of cases, compared with 91 percent for telecommunications. Strong IFC work quality was in evidence in the health sector, where the Corporation showed it had learned lessons from past experience, although the portfolio had had less diversity than envisaged.¹⁰ In oil, gas, mining, and chemicals, projects did not meet benchmarks for a number of reasons: a sponsor without the necessary technical expertise; a high-risk exploration venture that did not reach operational stage; and one case of poor environmental compliance.

Factoring in Risk

Unlike in the world of finance, systematic risk-adjusted performance measures have yet to be established in the development arena.¹¹ Factoring in project risk exposure, and IFC work quality, IEG is developing an initial Risk-Adjusted Expected Development Outcome (RAEDO) framework. This approach estimates the probability of achieving high development outcomes, taking into account project risk conditions (i.e., country, sponsor, product market, and project type risks), and in the expectation of satisfactory or better IFC work quality.

The RAEDO approach can provide a new perspective on project performance. Risk factors always have an impact on performance, and they are seen to be more pronounced in Sub-Saharan Africa and

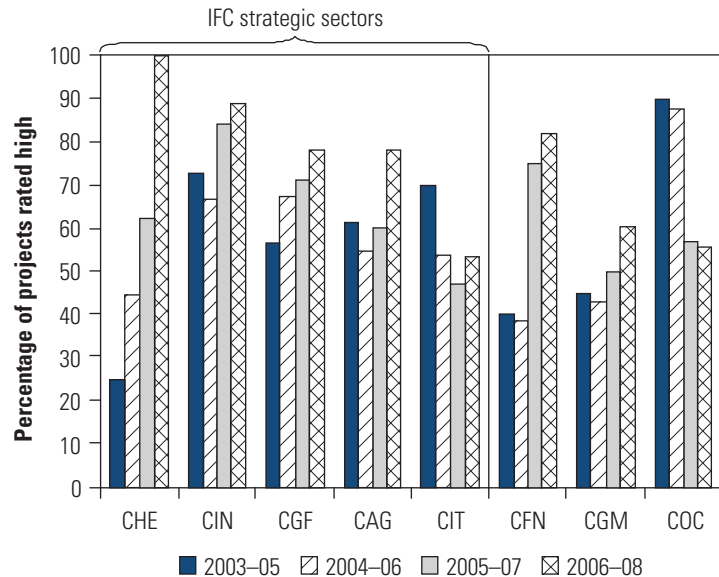
in Middle East and North Africa. The effect of risk factors is, however, less variable by industries than by regions. The Communications & Information Technologies and Global Financial Markets sectors tend to have higher risk profiles than other sectors. For most departments, IFC-controllable factors tend to dominate external risk factors in terms of impact on development outcomes. The impact of internal factors (i.e., IFC work quality) is particularly pronounced in the case of East Asia and the Pacific and of Communications & Information Technologies. It is evident that in all regions and sectors, including Sub-Saharan Africa and Middle East and North Africa, even if we account for risk, the potential for success is high, but it is not achieved largely because of shortcomings in work quality. It is worth noting that the current monitoring and evaluation (M&E) system is designed to measure the level of effectiveness of the institution at the project and aggregate levels, but does not offer a single measure of *the comparative magnitude* of development impacts across projects. Therefore, since the RAEDO approach is also based on projects' development success rates, it still cannot capture the differences that may exist with respect to these magnitudes. This is an interesting but complex area for future work. (Appendix D contains further discussion of these preliminary results).

Environmental and Social Performance

Most project development indicators improved, but environmental and social effects ratings show a slight decline (figure 2.14). As figure 2.15 shows, this was due to the relatively low number (49 percent) of financial intermediary (FI) operations evaluated between 2006 and 2008 achieving high environmental and social ratings. Real sector operations, on the other hand, achieved a much higher environmental and social effects rating (71 percent). Low performance was most apparent among FI projects in Sub-Saharan Africa, mainly related to weak FI environmental and social commitment and management capacity, and poor reporting of the environmental and social effects of subprojects. Weak regulatory frameworks also contributed to low results.

IFC's environmental and social supervision quality of FI projects has improved from a low of 47

Figure 2.13. Performance Was Strong in IFC's Strategic Sectors



Source: IEG.

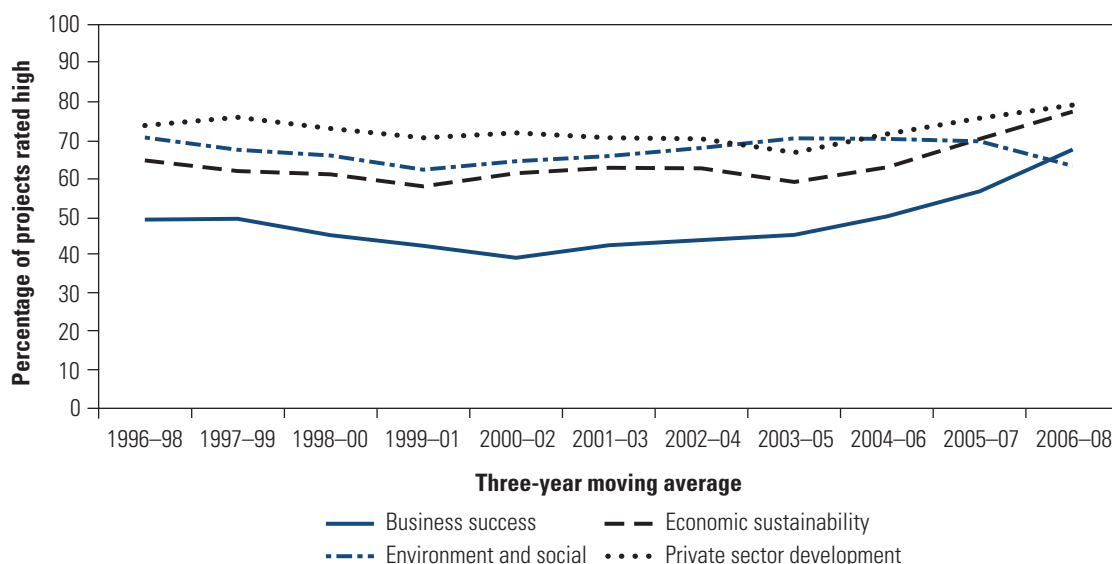
Notes: Based on 2003–08 evaluations.

CHE = Health & Education, CIN = Infrastructure, CGF = Global Financial Markets, CAG = Food & Agribusiness, CIT = Communications & Information Technologies, CFN = Private Equity & Investment Funds, CGM = Global Manufacturing Service, COC = Oil, Gas, Mining, & Chemicals.

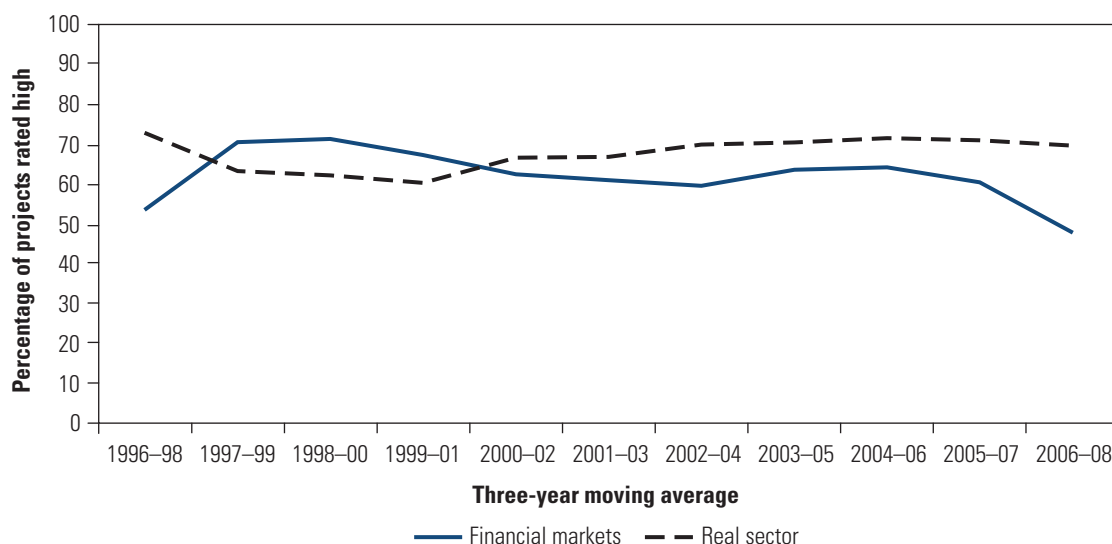
percent in 2006, to 62 percent in 2008. *Few FI operations achieved high environmental and social ratings.*

At the same time, IFC's role and contribution in building client commitment, skills, and capacity has not improved, and remains low for FIs (56 percent in 2008), compared with the real sector (83 percent).¹² This level of performance is far from optimal and has been an important factor in low FI environmental and social effects ratings. This is because FI environment and safeguards (E&S) performance can be largely attributed to the extent of client commitment and capacity. Some efforts to build FI capacity in partnership with local banks and training organizations have been encouraging, for example in China. However, such efforts have been much less successful in other parts of the world, particularly in Africa.

IFC has increased the number of FI environmental specialists since 2004—from one to four full-time specialists (three in the field), and two part-time consultants. They are collectively tasked

Figure 2.14. Environmental and Social Effects Performance Weakened in 2008

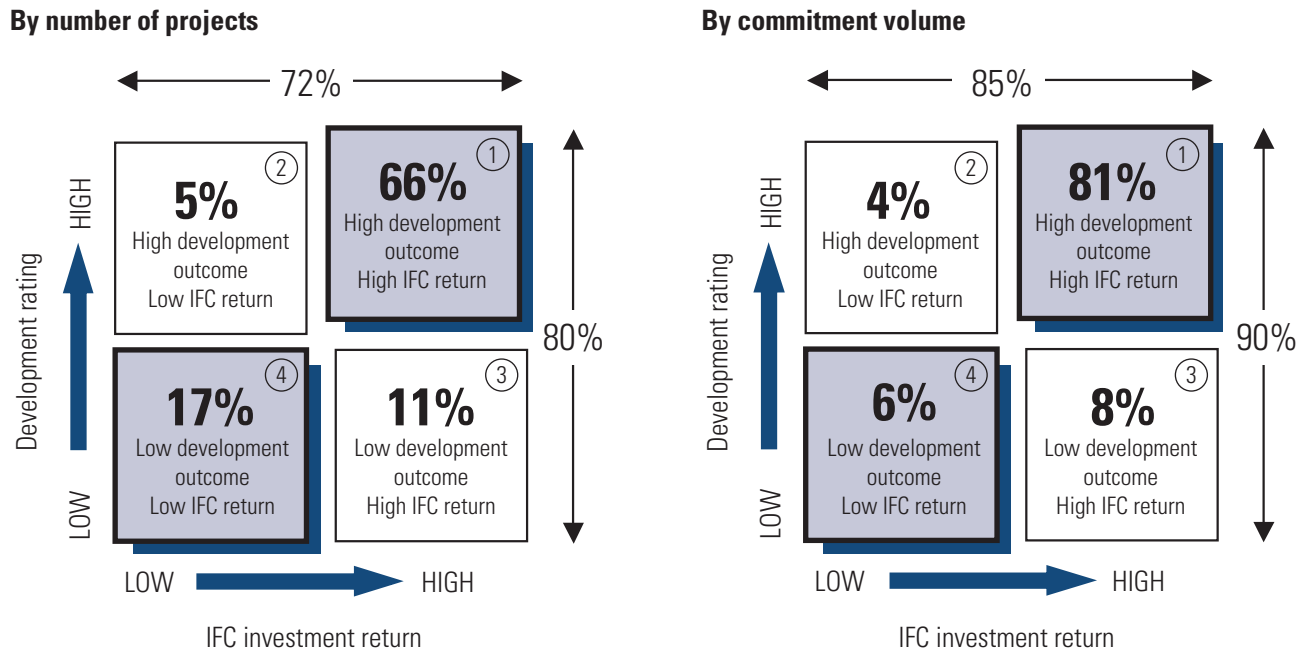
Source: IEG.

Figure 2.15. Environmental and Social Effects Performance Has Declined Sharply for Financial Intermediary Operations

Source: IEG.

with improving FI supervision and client capacity-building. However, during this period the FI-committed portfolio grew sevenfold, from \$1.7 billion to \$12.3 billion, and the number of projects doubled. IFC's FI E&S management capacity and approach has not kept pace with the increase.

Relatedly, the internal communication links between IFC's E&S specialists, investment officers, and the client's environmental staff could be further strengthened to ensure timely client follow-up. A process has been initiated for joint quarterly portfolio review meetings between the Environ-

Figure 2.16. Project Development Outcomes and IFC Profitability Were Strongly Correlated

Source: IEG.

Note: Based on 2006–08 evaluations.

Source: IEG.

Note: Based on 2006–08 evaluations. Volume is by IFC investment size.

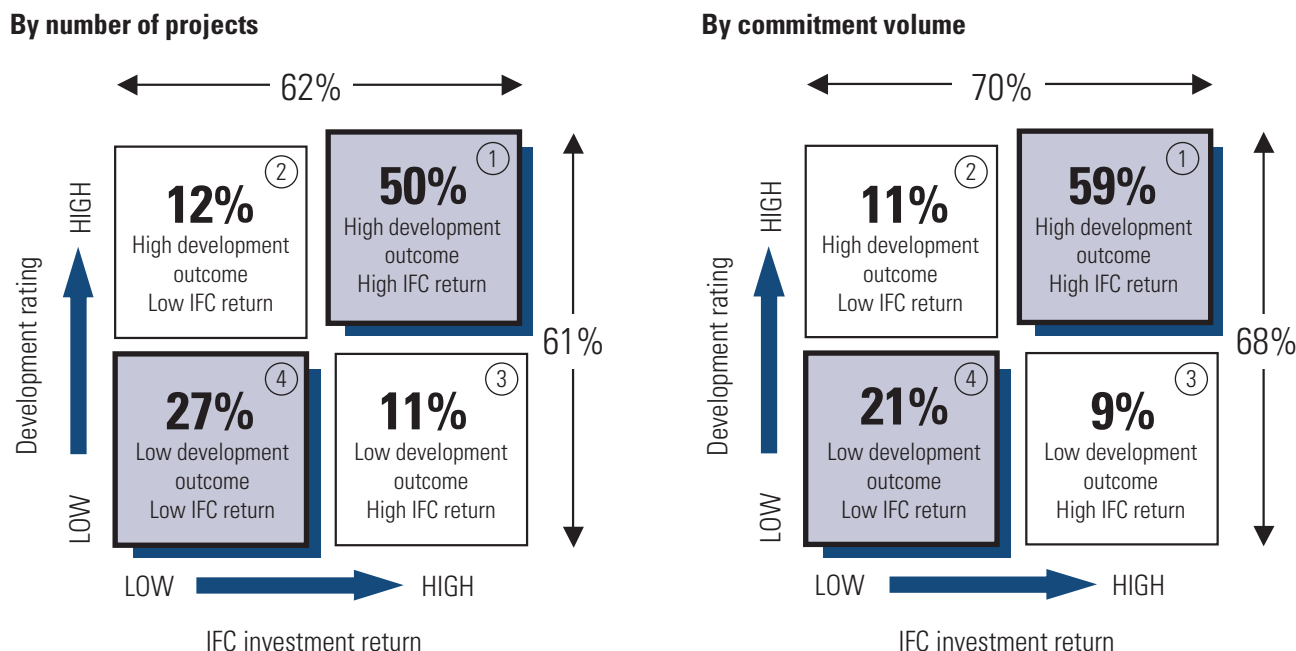
mental and Social Department and the Global Financial Markets Department for client follow-up. It is worth noting that following earlier IEG feedback, IFC has recently selectively started visiting FI's subprojects during supervision missions, as a means to validate the FI's reported E&S performance but also to train the FI's staff in conducting appraisals and monitoring E&S effects. Meanwhile, IFC's on-line training program for E&S appraisal and monitoring has remained under development for several years.

Relationship between Project Development Outcomes and IFC Profitability

As in previous years, IEG found a strong connection between project development outcome and IFC profitability. Combined high/high outcomes (high development outcome and high IFC investment return) were achieved in 66 percent of projects (81 percent by volume), while 17 percent of projects (6 percent by volume) achieved low/low outcomes (see figure 2.16). There was a difference between project development outcomes and IFC investment performance in only

16 percent of projects. In most of these cases (11 percent), IFC still achieved an acceptable investment return, reflective of IFC's ranking claim on company cash flow for loan service, as well as the collateral security package (most of these operations were loans), which together provided some downside protection.¹³ (Appendix C provides further details on the characteristics of different result combinations.)

The share of operations in the high/high quadrant has increased substantially in the last few years, from 47 percent in 2003–05 to 66 percent in 2006–08 (or from 59 percent to 81 percent, by volume). Conducive business environments in many developing countries up until late 2008, as well as clear improvements in IFC work quality (in appraisal and structuring) have been key factors in increasing the share of operations in the high/high quadrant. The exit of a low-performing year, 2005, also had a significant effect. Again, larger operations, typically with stronger sponsors and exhibiting better IFC work quality, were more likely to achieve high/high outcomes. The rela-

Figure 2.17. On a Cumulative Basis, High/High Outcomes Were Achieved Half the Time

Source: IEG.

Note: Based on 1996–2008 evaluations.

Source: IEG.

Note: Based on 1996–2008 evaluations. Volume is by IFC investment size.

tionship between project size and performance can also be seen over the longer term, with performance by volume of commitments being better than performance by number of operations (see figure 2.17).

Impact and Implications of the Global Financial Crisis

Performance during Past Crises

Given the current global financial crisis, it is important to examine IFC's experiences in past crises. Evaluations of projects affected by 27 crises in the last 15 years show a common characteristic: particularly low development outcomes for projects in implementation at the time of the crisis, with less than half achieving high ratings. Operations that were maturing, or were approved postcrisis, fared much better. (Box 2.5 and figure 2.18 illustrate these patterns in a general sense, while table 2.3 shows the severe effects of crisis on project performance in a single country—Argentina).

These findings reflect several factors: i) IFC operations approved before a crisis, like other private sector activities, were not immune to the sharp deterioration in the investment climate caused by the crisis.¹⁴ Clients tend to approach IFC to increase their output capacity when economic conditions are buoyant and prices are high in the market cycle. However, by the time the projects come on-stream, the market has often peaked and prices are in the down-cycle. Recently committed and disbursed projects thus tend to suffer most. ii) The better results of postcrisis projects are consistent with the finding that the improvement in the business environment (represented by beneficial changes in country credit ratings between approval and evaluation) was a significant determinant of better development outcomes.¹⁵ iii) Given that IFC's additionality, particularly financial additionality, should be stronger following a crisis, the finding supports the thesis that higher IFC additionality is associated with better development results.

Box 2.5. Projects under Implementation in the Downturn Are Most Vulnerable to the Crisis

The crisis is expected to have very different effects, depending on the stage of the project in its lifecycle:

Mature projects: Already operational before the crisis hit; the crisis may influence future earnings but they have probably already benefited from the precrisis boom period. Lower ratios of financial rate of return (FRR) to economic rate of return (ERR) are possible, due to lower cashflow projections postcrisis and lower valuation of terminal value, but the nature of discounted cash flow puts an emphasis on earlier years' cash flows (and in this case, realized cash flow, vis-à-vis future cash flow, which are discounted to obtain FRR/ERR).

Projects approved just prior to the crisis (in implementation during the downturn): Not operational when the crisis hit; the project financing plan was typically based on a boom period market

condition as the starting point, and the crisis may erode justifications for business expansion, while financial losses of sponsor business(es) may weaken the sponsor's ability to carry out further expansion. Sponsors may need to reconsider investment plans and may shift their emphasis toward restructuring/reorganization, rather than expansion (or even consider project termination), with consequent effects on development outcomes.

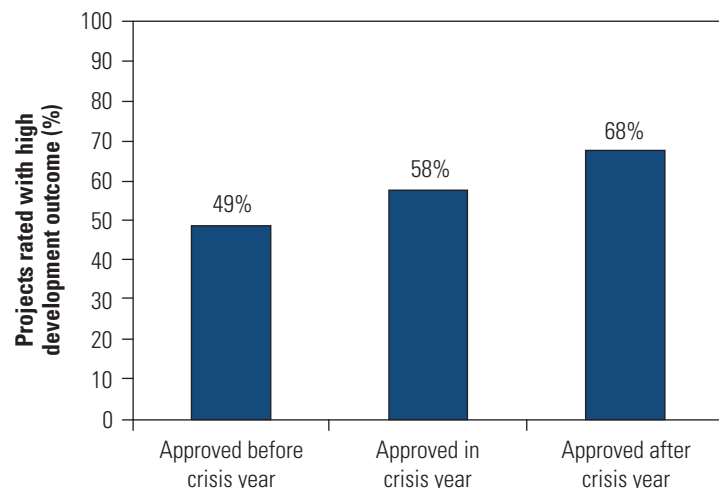
Projects approved in the wake of the crisis: Not approved when the crisis hit; the sponsor can accordingly take into account slowing growth and reduced product or service demand in its plans for business development and expansion. As the business cycle improves, the project can be well placed to take advantage of increased demand and grow the business, thereby creating increased revenues and new jobs, and contributing to economic growth.

Evaluations also indicate that visible, timely interventions can have a strong signaling effect. Key interventions, such as visible restructurings of major industrial clients, fast recapitalizations of major banks, and large loan syndications have had strong demonstration effects and positive impacts on market confidence (Republic of Korea, 1997; Russia, 1998; Turkey, 2001). This effect is based primarily on IFC's long-term orientation, track record as a reputable and successful investor in emerging markets, and ability to support key restructurings through honest-broker leadership in steering committees of creditors and bondholders, which can signal turnaround for the entire sector and economy (as in the case of a major bank in Argentina).

The size of the effect depends on the visibility—investments in large key flagship companies of systemic importance for a country, such as banks, manufacturing, or infrastructure companies are likely to send a strong signal. The timing of the intervention is also important—announcement at the peak of market uncertainty can have profound effects, as in Korea during the Asian crisis, where IFC investment increased dramatically after a period of low involvement. Another example of

IFC's catalytic role can be found with respect to Turkey. In addition to restructuring major companies, IFC mobilized \$100 million of its own and commercial bank funds in the wake of a major financial crisis, which was an important signal to the markets during the recovery of the financial cri-

Figure 2.18. Best Results When IFC Investments Were Made in the Wake of a Crisis



Source: IEG.

Table 2.3. In Argentina, Performance Fell Dramatically as the Business Environment Deteriorated

	Mature precrisis (a)	Mature at the time of crisis (b)	Early implementation at the time of crisis (c)	Difference (c-a) (%)
Average change, Country Credit Risk Rating	+7.5 (+21%)	-9.3 (-24%)	-21 (-50%)	-71%
Share of IFC projects with high development ratings	77%	44%	11%	-66%

Source: IEG and Institutional Investor.

Note: Country Credit Risk Rating is measured on a scale of 100, with lower ratings equating to higher country risk.

sis. However, difficult or badly implemented restructuring of IFC's own problem projects has negatively affected its ability to play a signaling role. Some of the difficult restructuring cases absorbed significant IFC resources, attracted negative publicity, and inhibited its ability to be more effective during the crisis (e.g., Thailand, 1997).

In past crises, services demanded by the private sector included: balance sheet restructuring, instead of financing new productive assets; corporate financing, instead of project financing; short-term liquidity and trade finance, instead of medium- and long-term financing; and local currency financing, instead of dollar financing. Given IFC's historic focus on project financing, its response to these needs was often slow and inadequate. The case of trade finance illustrates the point. From FY98 to FY03, IFC committed 21 trade finance facilities amounting to \$542 million. Of these facilities, 11 were never used, and of the 10 that were used, the average utilization rate was just 27 percent. Over time, motivated initially by the need to respond to crisis, IFC built up the capacity to provide these services. Corporate finance now dominates IFC's business. Within a short period of time, the Global Trade Finance Program has become a significant part of IFC's business. Some capabilities have been developed for local currency finance, but IFC's capacity in this area is still weak relative to private sector demand. IFC has also increased its field presence significantly.

standards, promote better corporate governance practices, enhance risk management practices in financial institutions, help build financial infrastructure, including credit rating agencies and credit bureaus, and enhance regulatory capacity relating to new financial instruments and institutions. These activities grew initially in response to structural weaknesses made apparent by crisis (particularly during the Asian crisis) and have become an important part of IFC's AS operations. Some of IFC's postcrisis interventions combined investments and AS. These experiences are discussed in Part II of this report.

Evaluation suggests close attention is needed in four general areas when responding to a crisis:

- the nature and timing of investments;
- opportunities and constraints for bigger impact;
- IFC's own internal practices, notably arrangements for organizing and conducting its work; and
- good IFC-Bank collaboration.

Nature and timing of IFC investments. IFC's additionality and project development outcomes, as discussed above, have been stronger following a crisis. Key IFC interventions—investment in flagship companies, visible restructurings of major industrial clients, or large syndications of commercial bank loans, for instance—that capitalize on its reputation as an investor and honest broker can have a strong signaling effect that helps restore market confidence, particularly if announced at the peak of market uncertainty. Conversely, failure to deal decisively and expeditiously

The speed of response is crucial. Crises have also expanded demand for IFC's AS, for instance, to improve corporate transparency through compliance with international accounting

with its own problem projects can undermine IFC's effectiveness in responding to crisis.

Opportunities and constraints for bigger impact. Crises can present opportunities to reach new clients and result in rewards for risk-taking. Often, however, such opportunities are missed owing to the diversion of staff attention and effort to restructuring extant projects, thereby undermining IFC's ability to function as a countercyclical financier. For example, in Argentina, Indonesia, and Thailand, IFC restructured investments and injected liquidity. However, difficulties in restructuring absorbed significant resources, and negatively affected IFC's ability to play a countercyclical role. Separating restructuring from new business teams may help in facilitating collaboration among Bank and IMF teams.

In addition, the quality of the bankruptcy regime and its legal enforcement can have a major impact on operations after the crisis. A working bankruptcy regime, by encouraging cooperative out-of-court restructuring efforts among investors, has helped speed recovery. Conversely, weak bankruptcy regimes have been used by unscrupulous shareholders to frustrate recovery efforts and maximize private gains. In restructuring portfolio companies, IFC has on occasion tested the bankruptcy regimes of some crises-affected countries (Thailand, Indonesia). In doing so, IFC has raised awareness of structural issues affecting corporate restructuring and has helped strengthen investors' rights.

An important element of IFC's restructuring strategy was cooperation with the Bank to focus the government's attention on such systemic restructuring issues faced by the private sector (Indonesia and Thailand, 1997). Unfortunately, in the end, bankruptcy regimes did not improve much, which limited general investor's interest and limited the effectiveness of IFC's interventions predicated on the existence of restructuring opportunities.

IFC's internal practices. In many cases, the effectiveness of response depends on it being preceded by a progressive sequence of steps to adapt to the outbreak and spread of crisis. Timeliness, size, and relevance to country and business

needs were distinctly better when IFC had: (i) recognized signs of deterioration in economic conditions; (ii) adapted country strategies to changing circumstances; (iii) adjusted investment approaches by becoming more selective and worked—including through advisory services—with companies less vulnerable to currency fluctuations or with familiar sponsors; and (iv) taken measures to alleviate exposure constraints (Brazil, 2002; Turkey, 2001). Conversely, IFC's effectiveness during a crisis was impaired when it had not adjusted the project mix to economic deterioration (Argentina, 2001).

The speed of response is also crucial. IFC made significant efforts to mobilize large amounts of capital through trade facilities, liquidity facilities, and equity funds, but slow decision making prevented timely response to opportunities (Thailand, Indonesia). For instance, IFC was slow to respond to the opportunities in the earlier crisis in Russia. It had fewer staff working on Russia following the 1998 crisis than before, and did not have the resources to work with potential Russian sponsors. On the other hand, in Korea, where IFC had little activity prior to the crisis, quick mobilization of resources led to an effective IFC response to the 1997 crisis. IFC has experienced strong demand for local currency financing during past crises (East Asia, Pakistan), but its capacity to respond quickly, including by borrowing locally and using the proceeds for on-lending to clients, has been limited.

While forecasting crises is inherently difficult, good quality of work helps project outcomes. Prediction of the gravity of a crisis is by nature a very imprecise exercise and IFC is subject to many of the same difficulties in forecasting crises as other investors. IFC teams often discussed the possibility of crises (in Turkey, for example, where the economic environment was considered a key risk in IFC projects), but full-fledged scenarios were not typically developed.

Given the inherent difficulties in forecasting crises, good quality of work contributes to the resilience of projects. For instance, there were significant differences in quality among projects in Argentina that broadly mirrored differences in ratings of

IFC's upstream preparation activity among these projects. Conservative assessment of the availability of complementary sources of finance, which often dries up in crises, was also important. Projects that were clearly and adequately documented—a sign of good supervision—were more likely to be successfully restructured (Argentina, 2001). Realistic, cautious, and timely loan and equity loss provisions that more accurately reflected the larger risks to IFC's investment portfolio in crisis countries also helped restructuring by focusing staff attention on improving the portfolio quality and, to some extent, understanding negotiation room with clients.

IFC collaboration with the Bank. Finally, when managed well, such collaboration has enhanced the effectiveness of IFC's interventions by supporting private sector responses to policy measures (Korea). Bank advice and other

When managed well, collaboration between IFC and the World Bank helps results.

interventions have on occasion been informed by IFC's knowledge of the corporate and financial sectors in a crisis-affected country. IFC's signaling role can be an important complement to public sector interventions. At the same time, the Corporation's role as a creditor and shareholder in key financial institutions or corporations can be a powerful tool in corporate and industry *restructuring*.

While IFC crisis interventions could have contributed to the preservation of jobs, IEG could not find evidence of joint efforts by the Bank and IFC on employment and poverty during crises. Bank-IFC collaboration had been modest, in general, and not any better—and sometimes worse—during past crises. On occasion, IFC cooperation with the Bank and the IMF was impaired by perceived conflicts of interest on the part of IFC, especially in highly publicized commercial disputes involving IFC's clients. Large-scale, wholesale interventions through funds or facilities gave IFC a seat at the table and facilitated IFC-Bank dialogue (trade finance facilities in Korea, Argentina).

Implications for the Current Global Financial Crisis

In the first instance, given rapid commitment growth in recent years, IFC is exposed to a large

downside development and investment risk. Operations that are most likely to fail to achieve development and financial benchmarks—those in early operating maturity—currently make up 40 percent of IFC's active portfolio of operations (62 percent by volume).¹⁶

Careful stewardship of the portfolio will clearly be paramount, both from a development, as well as a financial perspective. But new investment opportunities must also be seized. Factoring in the lessons set out above from past crises, for example, in effective restructuring and working in collaboration with the Bank, will be important. Getting the balance right between portfolio protection and new opportunity maximization will be a key challenge.

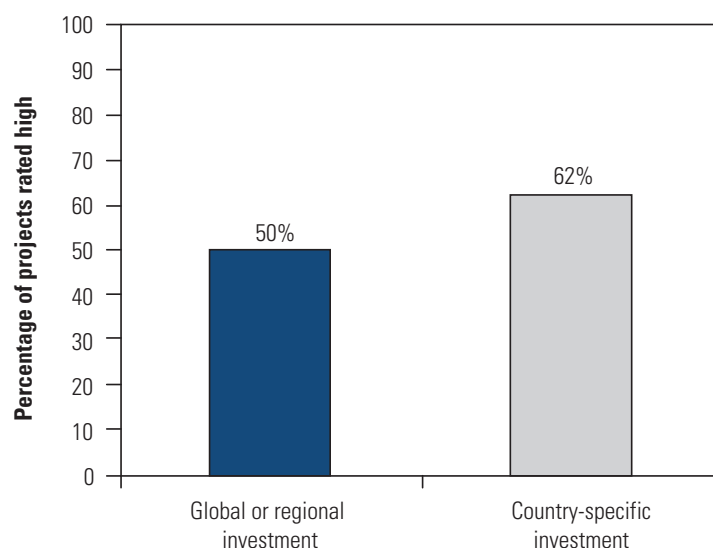
IFC's crisis response, which is part of a broader Bank Group response, is still evolving. It contains a mixture of portfolio management and short-term capital injections: supporting the portfolio of existing clients; a broadening of the trade finance program to \$18 billion, including guarantees that would cover the payment risk in trade transactions with local banks in emerging markets; a bank recapitalization fund (a global equity and subordinated debt fund managed by IFC, with a minimum endowment of \$5 billion, which aims to help recapitalize banks in smaller emerging markets); distressed asset management, with a first stage worth about \$500 million; an infrastructure crisis facility, a joint loan financing trust, equity facility, and advisory facility to which IFC is initially providing \$300 million, aimed at stabilizing existing, viable infrastructure projects facing temporary liquidity problems due to limited private participation, and enabling some continuation of new project development in private infrastructure; a microfinance liquidity facility of \$500 million (in cooperation with Germany's KfW and the Netherlands Development Finance Company); and an objective to continue efforts aimed at climate change mitigation. For the first time, IFC's response integrates investment operations and advisory services, for example, in using advisory services to build company restructuring skills. Challenges in implementing this response include: lower than anticipated funds mobilization from third parties; complex structures (bank recapitalization fund

as a wholly owned subsidiary); and adaptation to specific country circumstances and needs.

Looking beyond the immediate term, if the crisis is longer and deeper than expected, IFC may need to take certain contingency measures to tackle risks to sustainable economic, social, and environmental development. Such measures might include pro-poor interventions and new global or regional development platforms. In the past, global and regional investments have tended to achieve weaker development outcomes than single-country investments (figure 2.19). This implies that any such efforts may need to be reshaped, and emphasizes the importance of factoring in lessons from experience. (Table 2.4 provides a summary of lessons from such past global and regional investments).

Finally, IFC, at present, does not systematically assess risks to development, as it does to financial risks. This might include the risks to achievement of SME development, climate change, and rural poverty reduction goals. While there is a close association between financial and development “returns,” it is not sufficient to assume that the latter will be ensured only through attention to the former. This applies not just to the project level, which IFC’s Development Outcome Tracking System partly addresses in monitoring changes in

Figure 2.19. Global and Regional Investments Tend to Perform Less Well Than Single-Country Investments



Source: IEG.

project development expectations, but also to the sector, country, and region levels. Tracking development risks more systematically, and undertaking some sensitivity testing through scenario development, may help guide future resource allocation so that it enhances IFC’s development impact.

Table 2.4. Selected Lessons from Regional and Global Investments

Lesson	
Scope	The original project scope (30 businesses in over 100 countries) was too ambitious. Both the sponsor and IFC underestimated the time, difficulty, and cost of setting up enterprises in multiple countries simultaneously. The concept of setting up regional hubs also proved to be an expensive and time consuming proposition. IFC should invest in projects that have an achievable scope, and test the concept before expanding.
Country tailoring	Multicountry lending facilities can be difficult to implement when the project requires security or other documentation to be adjusted to the specifics of each locality in the facility for disbursements to be possible. A global security framework, if possible, could ease the documentation and implementation burden.

Source: Project evaluations.

Part II

Knowledge for Development



Performance of IFC Advisory Services

This is the first global assessment of IFC AS, thus we have adopted a broad, holistic approach to the subject. The chapter begins with a discussion of the connections between knowledge and private sector development. It then traces the growth of IFC AS, and its strategic implications (for IFC and the Bank Group more generally), followed by an examination of three themes: i) the organizational alignment of AS; ii) the delivery of AS; and iii) the results and additionality of IFC in these operations. In line with good evaluation practice, we triangulate evidence using multiple sources where possible (table 3.1).

IFC Advisory Services have been growing rapidly—tenfold in the last seven years—and AS teams dominate IFC’s presence in the field. This raises key strategic questions, including resource balance and possible quality trade-offs. IFC has taken steps to improve the organizational alignment of its AS, but more needs to be done to improve internal focus and accountability, and better complement the efforts of others.

Available results data suggest better performance in Southern Europe and Central Asia, weaker performance in Latin America and the Caribbean (prior to a recent reorganization) and for global projects; and strong associations between country conditions, client commitment, the degree to which AS is programmatic, local presence, IFC additionality, and results. IFC’s delivery approach appears to compare well with that of other development institutions, but is far from optimal.

Additionality is fundamental for better performance, and may be enhanced by some—though not all—combinations with IFC investments (e.g., better ratings when combined with loans, and for SME linkage projects in agribusiness and manufacturing). More benchmarking, against both other MDBs and commercial knowledge providers, may be helpful.

Knowledge, Development, and the Private Sector

The accumulation and effective deployment of financial and physical resources are indispensable conditions for development, but they are not sufficient. Advances in knowledge and technology are fundamental components of almost any country’s growth story—from the Industrial Revolution in the nineteenth century, to today’s developed economies, to the economic success stories of the likes of Korea, India, and the Baltic States in the

Table 3.1. Methodologies Employed by IEG to Evaluate IFC Advisory Services

Evaluation Activity	Focus	Main Data Sources
<i>Literature review</i> on knowledge and private sector development	Context/concept	Various
<i>Meta Analysis</i> of IFC AS portfolio, staffing, and new business	Evolution and relevance/ additionality	IFC AS database World Bank development database
<i>Meta Analysis</i> of IFC and Bank Group strategies	Strategic alignment	Annual corporate and business line strategies Facility strategies 33 Country Assistance Strategies, completed between 2007–08
<i>Meta Analysis</i> of AS project approval documents	Strategic alignment/ additionality	248 AS approval documents, for projects approved between 2006–08 ^a
<i>Structured Interviews</i> with IFC clients, donors, other multilateral development banks, etc., in seven regions	Delivery, results, and additionality	About 150 interviews
<i>Interviews</i> with IFC AS managers & staff, in the regions and headquarters	Alignment and delivery	About 150 interviews
<i>Survey</i> of IFC and Bank managers & staff	Alignment and delivery	1,025 survey responses ^b
<i>Meta Analysis</i> of external reviews of AS (including impact evaluations)	Delivery, results, and additionality	51 external program, product, and project reviews
<i>Validations/Quality Reviews</i> of completed AS operations	Results and additionality	458 IEG Project Completion Report (PCR) Reviews ^c
<i>Project & Country Case Examples</i>	Results and additionality	IEG PCR evaluations & country studies
<i>High-Level Comparison</i> of IFC AS activities, processes, and results of other providers of knowledge services	Delivery, results, and additionality	Interviews with eight development institutions Document and data review (including annual corporate, and independent evaluation, reports)

Source: IEG.

a. Selected by stratified random sample, from a population of 692 projects.

b. Out of a population of 1,920 managers and staff, covering IFC investment operations, IFC Advisory Services, as well as World Bank country directors, managers, and private sector development specialists.

c. Out of a population of 707 project completion reports, a coverage rate of 65 percent. See appendix G for further details on sample representativeness.

Advances in knowledge and technology are fundamental components of growth.

last 20 to 30 years.¹ This is due primarily to the beneficial effects of knowledge and technology progress on productivity.² Conversely, those countries that have failed to make advances in these areas, particularly in Africa, have typically fallen behind.

The public sector is the main provider of the knowledge infrastructure in many countries—

notably through investments in education and major research and development programs, but also in protecting intellectual property rights and providing communication arteries through which knowledge can travel. However, it is the private sector that translates this knowledge into productivity, profits, and job creation (thereby contributing to poverty reduction) through innovation and investment.³ At the same time, for sustainable long-run results, as the current global financial

crisis has highlighted, appropriate standards, regulation, and governance surrounding private enterprise are also required.

In this context, development institutions, such as the Bank Group, have key roles to play—notably, in promoting improvements in standards, regulation, and governance of private sector enterprise, and in facilitating knowledge advancement that contributes to sustainable private sector development in the developing world.⁴ Just as important as tangible changes in regulation and governance, are the less tangible shifts in attitudes and behaviors that can help underpin effective business practices.

In facilitating beneficial change through knowledge transfer, experience suggests several factors that could affect the chances of success: i) the absorptive capacity of the recipient and the capacity gap between provider and recipient—the bigger the capacity gap, the more difficult the transfer; ii) the level of overall development of the host country—the bigger the development gap between the source and the recipient country, typically the more difficult the transfer; iii) the level of commitment of both supplier and recipient—the greater the provider's stake in the process, involvement over time, and the level of supporting assistance, the greater the value (but also the cost) to the recipient (there is no substitute for the active role of the recipient in absorbing the knowledge and the information); iv) complementarity with other relationships between the provider and the recipient (if the exchange of knowledge and know-how is supported by exchange of other services, the effectiveness of the transfer is likely to be higher); v) complexity of the knowledge being transferred—the more codified and explicit the knowledge is, the easier (and less costly) its transfer.⁵ The recent IEG evaluation of the effectiveness of Bank economic and sector work and technical assistance confirmed some of these factors empirically, notably the absorptive capacity of recipient governments (economic & sector work and technical assistance were less effective where government capacity was lower); and commitment of the provider (Bank), in terms of resource allocation to IDA countries and in

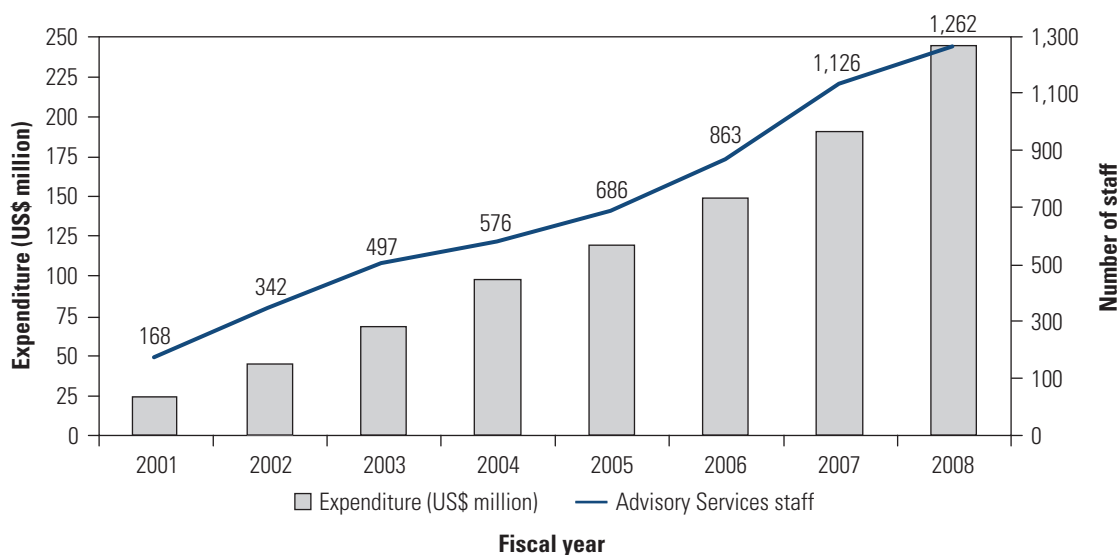
maintaining a strong country knowledge base, as well as recipient developing country government buy-in.⁶

Growth of IFC Advisory Services and Strategic Considerations

With donor support, IFC's role as a knowledge provider emerged on a relatively small scale in the 1980s. At that time, IFC's advisory activities had two main objectives: i) to improve the enabling environment for private investment; and ii) to build the capacity of small- and medium-size enterprises (SMEs). The main delivery vehicles for these services were, respectively, the Foreign Investment Advisory Services (FIAS), the regional SME development facilities, the Africa Project Development Facility (APDF), the Africa Management Services Company (AMSCO), and the Caribbean Project Development Facility. (See appendix E for more details on the early development of IFC AS).

IFC AS have grown rapidly since 2001. AS expenditures increased tenfold, from \$24 million in 2001, to \$245 million in 2008. Meanwhile, staffing has risen sevenfold over the same period, from 168 to 1,262 (or 36 percent of all IFC staff). As of June 2008, IFC was managing a portfolio of 839 AS projects, with a total approved value of \$908 million (figure 3.1). These data do not include certain advice that is embedded in IFC investment operations, for instance ad-hoc assistance with financial structuring, company strategy, and new business development. So in effect, the extent of IFC's efforts to provide knowledge to clients is even greater than the AS numbers alone suggest. Based on published data, it is estimated that IFC's share of MDB AS to the private sector is about a quarter.⁷ This share appears relatively stable, as other MDBs have also increased their AS operations—generally reflective of a growing need for this kind of knowledge as the private sector has taken on a greater role in development, and greater availability of donor funding for private sector development (PSD) related assistance to developing countries. The fact that most IFC AS and that of other MDBs are provided free of charge (at best subsidized) has also fuelled this growth, since a free good always has excess demand.

IFC's Advisory Services have grown rapidly.

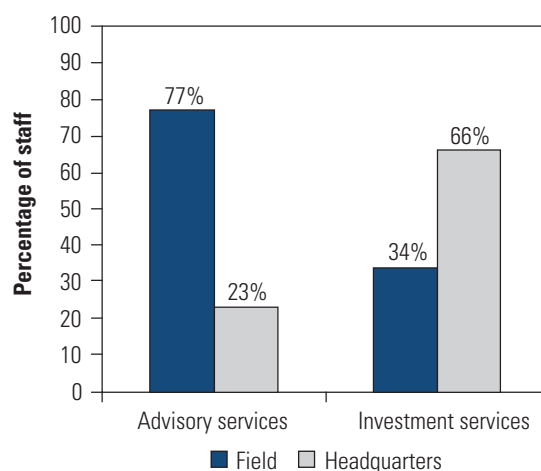
Figure 3.1. Rapid Growth in Advisory Services Operations and Staff

Source: IFC Human Resources; donor-funded operations, quarterly AS financial reports.

Note: Includes FIAS activities, which are partly funded by the World Bank and MIGA (IFC is the main funds provider and manager). In FY08, IFC provided \$11.8 million, MIGA provided \$4 million (for investment policy and promotion activities), and the World Bank provided \$2 million.

Recent IFC corporate strategies have indicated three main objectives for IFC AS: first, to improve the overall enabling environment for private investment, particularly where investment opportunities are limited; second, to integrate AS with Investment Services (IS), as a means to improve IFC additionality and development impact; and third, to pursue objectives common with those for IFC investments, such as focusing on frontier markets (including IDA countries and frontier regions of non-IDA countries, as well as SMEs and agribusiness), the strategic sectors of finance, infrastructure, health and education, and support for environmental and social sustainability (including climate change mitigation in middle-income countries and fast-growing IDA-blend countries, such as India).⁸

Just over three-quarters of IFC's 1,262 AS staff are based in field offices, typically in one of 18 regional facilities. This compares with a roughly 1:2 split of IS staff between field offices and headquarters (figure 3.2). Accordingly, there are more AS staff than IS staff in the field in developing countries. By region, the 18 facilities are distributed as follows:

Figure 3.2. Seventy-Seven Percent of Advisory Services Staff Are Based in the Field

Source: IFC Human Resources.

Note: Includes all AS and IS staff (analyst and above), as of end 2008.

- Central and Eastern Europe—Private Enterprise Partnership (PEP)
- East Asia and the Pacific—PEP-China; Mekong Project Development Facility; PEP-Pacific; PEP-

Philippines; Program for Eastern Indonesia SME Assistance

- Latin America and the Caribbean—LAC Program
- Middle East and North Africa—PEP-MENA; Iraq Small Business Facility
- South Asia—South Asia Enterprise Development Facility (SEDF); SME Development Program; SEDF—Sri Lanka and Maldives (SLDF); Bangladesh Investment Climate Facility
- Southern Europe and Central Asia—PEP-SE; PEP-SEI—Balkan Infrastructure Facility
- Sub-Saharan Africa—PEP-Africa; Mozambique SME Initiative; SME Solutions Centers

The remainder of AS staff work at the headquarters, in Washington DC, either in the Advisory Services Vice Presidential Unit (established in early 2008)—in portfolio management, results measurement, training, or partnerships management—or work for one of 13 global business units, such as the FIAS and the Global Environment Facility, some of which have staff in the field.

IFC uses a considerable number of external, short-term consultants to deliver its AS; there are as many consultants as staff. In FY08, the cost for employing those consultants (some 1,332) was \$72.3 million, only slightly less than IFC staff costs (1,262 staff, at \$82.7 million). This is a pattern consistent with previous years, and reflects a much greater tendency to use short-term consultants for AS than for IS (where staff outnumber short-term consultants by around 2:1).⁹ Consultants can of course bring skills and knowledge that the in-house staff do not have but, putting aside judgment of the ratio between staff and short-term consultants, such substantial use of consultants on short-term contracts does raise service continuity and quality challenges—both in meeting client needs, and with regard to IFC additionality and knowledge retention (where the same consultants are not reemployed by IFC).

Knowledge management is a significant challenge with such a wide dispersion of staff across the world, and especially given that 60 percent of AS staff have been with IFC less than three years. Management is increasing efforts to capture knowl-

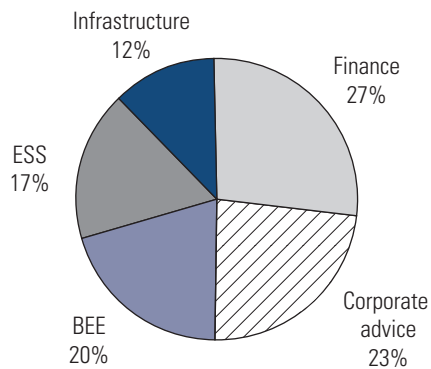
edge and share it globally across the AS program. Some good practices are emerging, such as SmartLessons, BEENet, and 'Deep Dive' training sessions. Special efforts to retain and spread knowledge may include: field-based training, practice groups, exchange and codification of tacit knowledge, creation and maintenance of relevant databases, and possibly a dedicated global research department/center of excellence to complete the knowledge value chain. Recognized leaders in this sense include the McKinsey Global Institute and the Harvard Business Review.¹⁰ Mechanisms of this kind, some of which IFC is pursuing, such as M&E network and conferences, are fundamental if IFC is to consider global knowledge as one of its comparative advantages.

Since early 2006, AS operations have been arranged into five business lines:¹¹

- Access to Finance (A2F)—Assistance that seeks to expand the availability of financial services to micro and small businesses and low-income households.
- Business Enabling Environment (BEE)—Activities geared toward improving the business environment to allow private sector projects to be viable.
- Corporate Advice (CA)—Activities aimed at improving the business capability of companies.
- Environmental and Social Sustainability (ESS)—Advice and market transformation activities that enable the private sector to deliver environmental and social benefits in developing countries.
- Infrastructure (INF)—Advice on improving access to basic services such as roads, telecommunications, water and energy utilities, and health and education.

BEE- and SME-directed activities—provided mainly through the A2F and CA business lines—remain key elements of IFC's advisory offerings, collectively accounting for about 70 percent of operations (figure 3.3). By region, Sub-Saharan Africa remains the main locus of IFC advisory activity, followed by East Asia and the Pacific (figure 3.4). A2F is the lead business line in four regions (Sub-

IFC uses as many short-term consultants as staff to deliver its Advisory Services.

Figure 3.3. Access to Finance Is the Largest Business Line

Source: IFC database.

Note: By number of operations, as of June 2008.

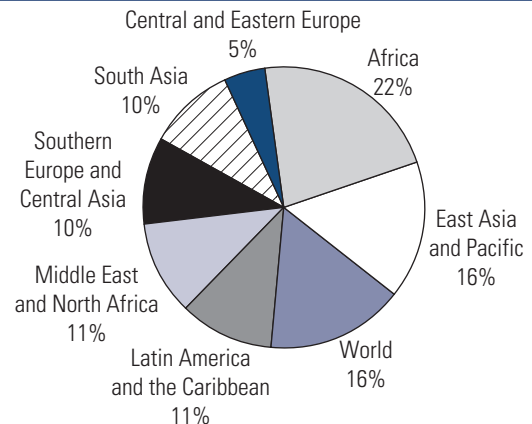
Saharan Africa, Middle East and North Africa, Central and Eastern Europe, and East Asia and the Pacific), CA in two regions (Southern Europe and Central Asia and South Asia), while ESS is the most active business line in Latin America and the Caribbean. The top five countries, by outstanding portfolio value, are: China; Russian Federation; Indonesia; Ukraine; and Bangladesh.

What does a typical AS project look like? Projects completed since 2005 have taken an average of 18 months to complete, although INF operations have tended to be shorter (14 months) and ESS and multiregion operations significantly longer (25 and 27 months). Average project size has been about \$350,000, although INF, multiregion, and ESS operations have tended to be larger (average between \$400,000 and \$600,000), and BEE operations smaller (average of \$220,000). Project outputs include: diagnostic reports, feasibility studies, surveys, transaction designs, draft legal and financial

frameworks, advice on institutional development and capacity building, best practice guidance, training, and one-off events—such as conferences, workshops, and seminars. Project duration is generally related to the complexity of the output with, for example, more codified diagnostic reports, such as those related to Bank Group Doing Business indicators. They generally take less time to complete than broader institutional development and

Governments are IFC's single largest client group.

capacity-building efforts, for instance, related to environmental and social systems improvements. IFC has standard output achievement indicators, but does not currently classify output types systematically, an effort that could enhance understanding about relative strengths and weaknesses of different outputs (e.g., surveys vs. diagnostic reports), and ultimately improve resource allocation.

Figure 3.4. Highest Share of Operations Is in Sub-Saharan Africa

Source: IFC database.

Note: By number of operations, as of June 2008.

IFC works with five main client groups: governments, financial and nonfinancial intermediaries, SMEs, and large enterprises. Of these, governments are the single largest client group, involved in nearly half of AS operations (table 3.2). Strong strategic coordination and operational collaboration with the Bank and other donors are therefore important, particularly where recipient government capacity is weak, and for BEE and INF work, where government clients predominate (table 3.3). This issue is discussed in the following sections.

The rapid, largely unchecked growth of AS raises a number of key strategic questions for IFC. First, in changing the nature and face of the Corporation, has IFC struck the appropriate balance between its traditional core business—investments—and its new business of Advisory Services? Knowledge delivery is inherently more labor intensive than is providing financial ser-

vices, which makes direct comparisons between the two businesses difficult. However, a clear understanding of how the two businesses relate to one another in enhancing development effectiveness across different contexts is paramount. The broader issue of Bank Group resource use for maximum impact, particularly at the country level, also needs to be addressed.

Second, while IFC has lately sought to bring some structure to the growth of AS, for example, through the creation of business lines, these changes will take time to embed. This would seem to imply a focus on consolidation rather than further growth. Evaluation shows that during periods of major organizational change in IFC Investment Services, work quality has suffered.¹² Tensions between growth, change, and quality are common among organizations, and will need to be managed carefully. Of related import is the need to establish effective quality baselines through sound M&E.

Third, the increased availability of free (or subsidized) AS in support of private sector development—from IFC and other development institutions—makes it impossible to assess true client demand, and can be market distorting. Free or subsidized AS is likely to have excess demand, and does not screen out clients that do not really need them, and/or are not committed to effective implementation of the AS, as would be the case with market pricing. It also does not send a signal as to whether a service is valued relative to another service (i.e., whether it is additional). Such submarket pricing also has consequences for existing commercial providers of AS, or possible new entrants to the market.

Organizational Alignment of Advisory Services

Internal Alignment

The structure of IFC AS, from direction to delivery, is a matrix that has three essential components: i) the Advisory Services Vice Presidency, established in 2008; ii) business lines; and iii) regional facilities and global business units, such as FIAS.¹³ The vice presidency is charged with providing

Table 3.2. IFC's Main Advisory Services Client Is Government

Client	Share of AS operations	Share of AS expenditures
Government	43%	52%
Financial intermediaries	35%	49%
SMEs	33%	38%
Nonfinancial intermediaries	33%	31%
Large enterprises	21%	26%

Source: IFC Advisory Services Portfolio Management.

Note: Portfolio as of June 2008. A single project may have multiple clients; about one-fifth of government-directed AS is accounted for by FIAS.

Table 3.3. Government Clients Predominate for Business Enabling Environment and Infrastructure Work

Business line	Main client	Main client share of business line expenditures
A2F	Financial intermediaries	83%
BEE	Government	89%
CA	Large companies	37%
ESS	Other intermediary/SMEs	43%/41%
INF	Government	74%

Source: IFC Advisory Services Portfolio Management.

Note: Portfolio data, as of June 2008. Population of 839 operations.

global oversight and direction/control of AS. The business lines, meanwhile, through global business line leaders (and regional business line heads), are tasked with leading business line and product strategy development, providing technical direction and quality control over products and projects, overseeing knowledge management, and managing central funding allocation activities. Finally, the regional facilities and global business units are expected to develop delivery strategies and manage regional funding allocation activities, and execute AS projects on the ground, in line with business line priorities and in alignment with regional and country needs.

The strategy process varies, depending on whether it applies to a business line, global business unit, or to an AS facility, which presents some alignment

Rapid, unchecked growth of Advisory Services has raised a number of key strategic questions.

challenges. The strategy for each business line and global business unit is revisited and updated annually by IFC as part of the corporate strategy review. Strategies for each of the facilities are usually approved at the time of donor and IFC funding renewal, which is typically every five years. Since facilities were created at different times, they tend not to have coterminous strategies. Since there are 18 such facilities, the potential is high for inconsistent, or superseded approaches (or, alternatively, strategic adaptations that do not align with original commitments to donors). At present, there is no overarching strategy for AS, beyond the key principles outlined above, which could help weave these various approaches together. The survey of, and interviews with, IFC staff reveal some frustration with low interaction among facilities (and across business lines), as well as change fatigue. A global AS strategy may help tackle some of this unease by bringing greater

Staff reveal frustration with low interaction among facilities (and across business lines).

clarity to the overall direction AS is heading in, and identifying and fostering greater synergies among facilities and across business lines.

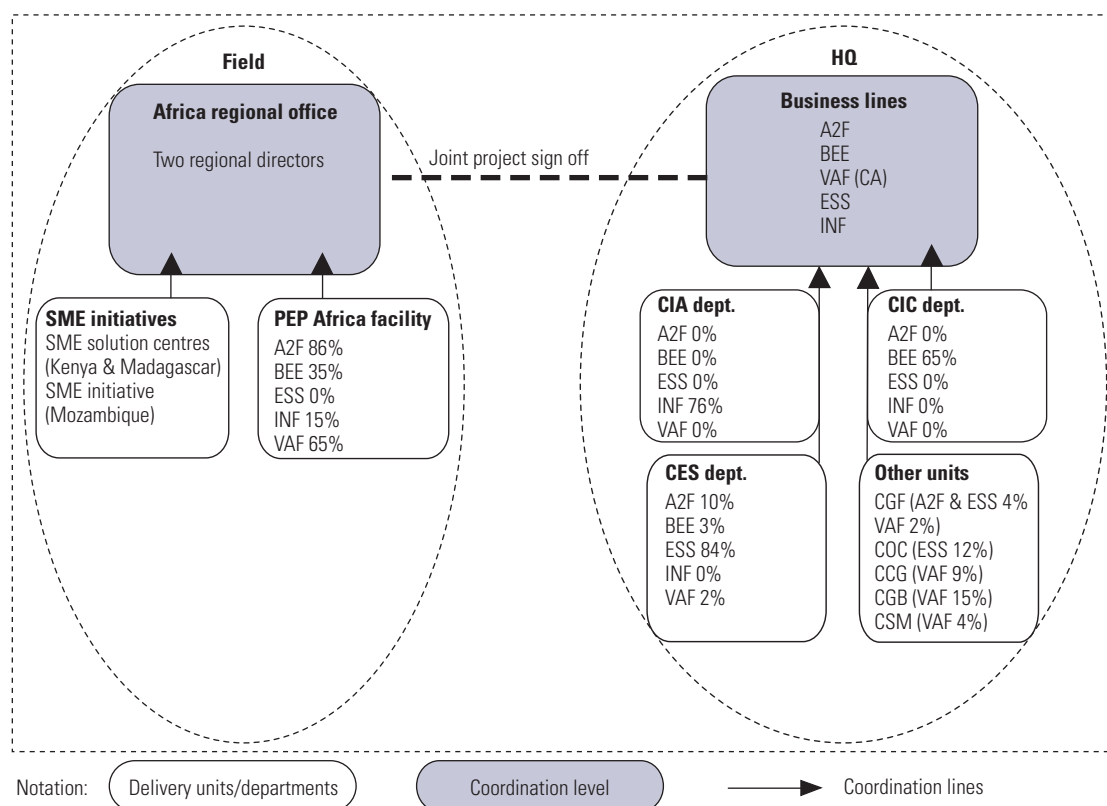
In principle, for each AS operation, there is a dual reporting structure—to AS business line leaders and to regional directors, the latter of whom are responsible for both AS and investments in a region. In practice, however, organizational reporting lines and accountabilities can be complicated. This is largely because of the donor-influenced, “ground up” nature of the evolution of IFC AS, which has left a legacy of numerous facilities in many regions—as referred to above (also see appendix F). Staff can find themselves seeking internal approval to proceed with a project from many sources: the general manager/manager of a facility, a regional director, a business line head (potentially both in the region and in headquarters), and a global business unit head.¹⁴ Feedback from IFC managers and staff is that these overlapping organizational structures can be substantially improved upon. IFC management has recognized these alignment challenges and has begun taking steps to consolidate coordination in the field. In the Latin America and the Caribbean region, there has been a move toward joint ventures with FIAS and the

Infrastructure Advisory Department, whereby the portfolio in the region is managed by a regional/joint appointment. However, overlapping and parallel structures still persist, notably in Sub-Saharan Africa, and South Asia. (Figure 3.5 illustrates the structures that exist for projects delivered in Sub-Saharan Africa).

IFC has been seeking greater alignment at the product level—product offerings within each business line. Since late 2008, IFC is seeking to distinguish its products as follows:¹⁵

- (i) *Entry*—A new product/approach, with as yet limited or no results information
- (ii) *In development*—Product with growing demand/potential for scaling up and replication across markets, and some supportive results
- (iii) *Developed*—Scaled up and replicated across at least three regions, with supportive results
- (iv) *Exit*—Product with low demand/other supply, and with weak results
- (v) *Other*—Idiosyncratic products, suitable for a particular country/market segment, and not expected to reach scale or be replicated broadly.

Of 55 AS product types that were proposed by business line leaders in December 2008, only 12 products were categorized as “developed” (31 percent of the project portfolio). This reflects the somewhat heterogeneous, experimental growth of AS products in the past, and the “catch up” effort to bring some structure to these offerings.¹⁶ By business line, A2F and INF had the greatest share of operations in the “developed” product category, with CA and ESS, which has emerged more recently, the least (no “developed” products in each case). The lack of developed CA products is surprising, given the fact that IFC has been involved with SME development since the 1980s. This may be due in part to the fact that some classifications are not reflecting what is happening in practice. For example, SME Toolkit and Business Edge have already been scaled up and replicated (and even outsourced), which would imply a more mature classification than their current “in development.” The evaluated re-

Figure 3.5. Delivery Structure for IFC Advisory Services Projects in Africa

Source: IEG.

Notes: The percentages are based on the number of projects in each business line delivered in the region, given the portfolio as of June 2008. VAF(CA) = Value Addition to Firms (Corporate Advice), CIA = Infrastructure Advisory, CIC = Investment Climate, CES = Environmental & Social, CGF = Global Financial Markets, COC = Oil, Gas, Mining, & Chemicals, CCG = Global Corporate Governance, CGB = Grassroots Business Initiative, CSM = Small & Medium Enterprise.

sults that come later also suggest other possible reclassifications.

One problem that IFC has faced in determining whether to expand or contract product offerings has historically been the lack of robust M&E data to inform what works well, what does not, and what should be changed in order to make products work more effectively.¹⁷ A new project-level M&E system was introduced in 2006, together with 150 standardized output, outcome, and impact indicators.¹⁸ However, reliable self-reported results data have so far been inadequate. In the absence of good results data, product classifications may—to some extent—reflect the quality of a product or business line leader's negotiation and persuasion

skills, rather than the achieved performance of a particular product.

IFC expects to have an 80:20 split between core (in development and developed) products and noncore (entry and other) products.¹⁹ Is this the right balance between product expansion and innovation/adaptation? Where should innovation originate—at headquarters, or in the field? In any organization, there is always tension between product standardization—for market consolidation and efficiency purposes—and product differentiation—for the exploration and exploitation of new market opportunities. This tension needs to be managed carefully. A review of the business literature suggests that the 80:20 ratio IFC is choos-

ing to pursue, between core and noncore products, is broadly in line with the practice of other organizations. It could be argued that given the Corporation's mission to be a catalytic agent, more rather than less innovation is required. However, so long as product development is based on: i) client demand, ii) results achievement; and iii) IFC capability, which in principle the approach is trying to achieve, then the classification system would seem appropriate, that is, if products are well defined from the outset. For example, it is not clear to stakeholders how some products materially differ, for example, Subnational Advisory (exit), as opposed to Advisory Mandates (developed) in the INF business line. Data on new and other product origination are limited, but suggest a relatively even balance between

IFC has yet to elucidate a model for integrating advice and finance.

headquarters and local offices. It is, however, not clear what balance IFC is aiming for in this regard.

Another major alignment question is how, and to what degree, AS integrate with investments. IFC has yet to elucidate an overall model for integrating the two businesses. Given the large AS presence in the field, and decentralization of IS operations, there are increased opportunities for coordination between the two businesses in addressing client needs. Beyond certain products, such as SME linkages operations and in Access to Finance, evidence of cooperation is limited. Since AS is generally more programmatic in its makeup—funding is agreed several years out, thus it generally does not need to find investors/providers to cooperate on a single project, unlike with IS. There is the potential for AS to serve as the anchor business in the field. That is, if various challenges can be overcome. These include: different program cycles; project timetables; processes, and clients (IFC does not invest with state entities, the main client of AS); lack of personal incentives to cooperate (especially for AS staff, a majority, whose future is tied to the continuation of a particular program); and the possibility for conflict of interest (COI). Surveyed and interviewed staff expressed wide-ranging views about AS/IS integration (from support for full integration to rejection of any integration), although they usually voiced concern about the lack of clarity surrounding integration. Again, an umbrella AS global

strategy might help to bring some much-needed direction, as well as improved in-the-field incentives. The issue of in-the-field collaboration between AS and IS operations is picked up again in the section of this report on delivery of AS.

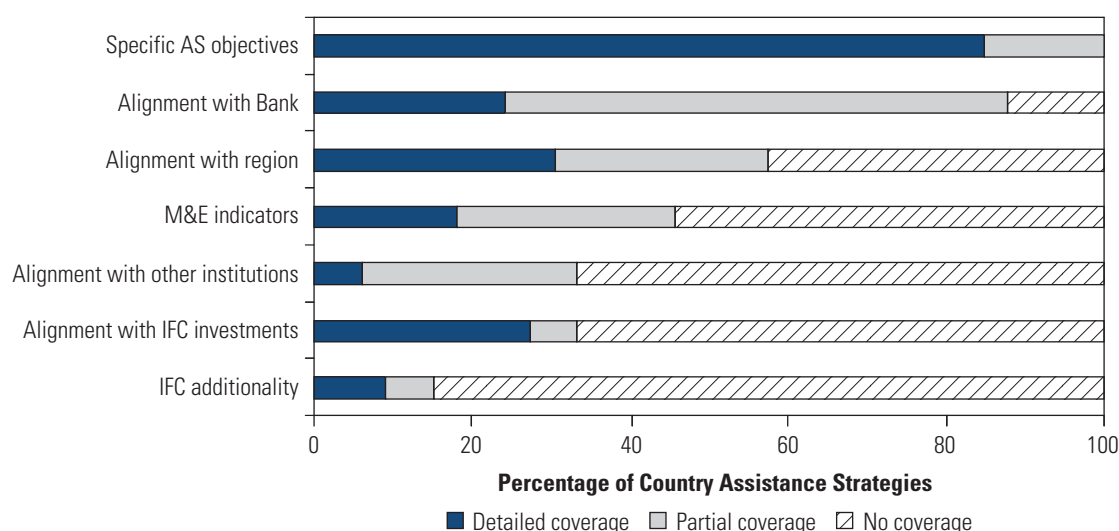
Alignment with Other Knowledge Providers

Aside from ensuring internal strategic and organizational coherence, it is important for IFC to align effectively with other development actors providing knowledge services. This will ensure that IFC does not duplicate, but rather complements their approaches and thereby contributes to greater development impact. The philosophy underlies the 2005 Paris Declaration on Aid Effectiveness, which, *inter alia*, called for greater complementarity among donors through a more effective division of labor.²⁰

One important lens through which to examine alignment with others is at the country level, specifically in Bank Group joint Country Assistance Strategies. Country-level coordination is highly relevant, given that governments are involved in about half of IFC AS clients. A review of 33 joint Country Assistance Strategies—produced in 2007 and 2008—reveals that alignment of IFC AS with Bank operations is often considered, though generally only in part, and there is typically limited reference to non-Bank actors, and to IFC additionality (see figure 3.6).²¹ Country strategic coordination is, however, not restricted to Country Assistance Strategies, and other mechanisms, such as private sector forums, have been tried successfully in some countries.

At the project level, it appears there is substantial room for better up-front coordination with other players. The majority of FY07 and FY08 IFC AS project approval documents, for instance, contained no mention of the activities of, and complementarities with, other actors—even going so far as to say that no other donor or commercial provider in a country, region or sector does or could provide the service that IFC is proposing (figure 3.7). This gap in coverage of other players in the market is recognized by seasoned IFC managers and staff as an area for improvement. As one manager put it, “At the project level, there is often very little analysis of what others in the market are doing

Figure 3.6. Country Assistance Strategies Provide Limited Coverage of Other Knowledge Providers



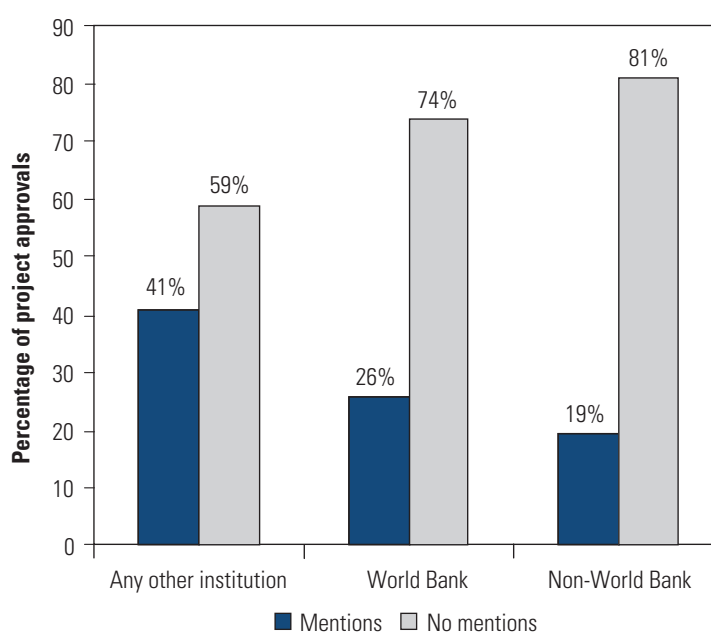
Source: IEG.

Note: Covers 33 joint Country Assistance Strategies completed in 2007 and 2008.

(which should only take two or three meetings). IFC has no business doing anything on the ground without mapping what others are doing.” On the other hand, the strategies and project approval documents of other development institutions typically do not explain how their knowledge services exhibit uniqueness and align with those of other providers. It shows that the development community, as a whole, has room for improvement in this respect.²² However, as discussed later, IFC’s collaboration with donors during program and project implementation appears relatively strong.

Strategic coordination can also happen globally, regionally, and by theme/sector. A good example is the creation of a Bank Group unit, such as FIAS, which accounts for around 20 percent of AS activities with government clients. A more recent example is the development of a joint Bank Group response to the global financial crisis, including new resources, and some reallocation of funds for IFC AS. Going forward, IFC plans to place particular focus on its AS to the financial sector (especially financial regulation matters) and infrastructure, restructure existing business lines and products, and introduce new efforts to help clients with risk management and workouts/restructuring.²³ These

Figure 3.7. Discussion of Activities and Complementarities with Others in Project Approvals Is Weak



Source: IEG.

Note: Covers 248 projects approved in 2007 and 2008. The 248 projects were selected for review by stratified random sampling, excluded from the population were approval documents for which the “IFC role” section was not completed (typically small, one-off workshops and seminars, or internally oriented projects).

efforts are still evolving, and their effectiveness will take time to determine. Past evaluation data on AS crisis responses are generally lacking because IFC's M&E system has only existed since 2006 (after any major developing-country crisis). Also, IFC AS was relatively small in scope during past crises. This evaluation provides some illustrative evidence of how relevant and useful IFC AS was during prior crises (see the section on results), but it focuses more on general insights that can be factored in as the Bank Group continues to adjust to the crisis, and to help inform the overall alignment and delivery of AS. At the regional level, a certain degree of donor activity mapping has occurred, for instance, with the development of the South Asia Enterprise Development Facilities. But interviews with staff and donors suggest more could be done in this area.

Delivery of IFC Advisory Services

This section examines four issues that are central to the delivery of IFC AS:

- Funding
- Project design and implementation
- M&E systems
- Internal and external collaboration.

The section concludes by comparing IFC's delivery mechanisms with those of other knowledge service providers across these same dimensions.

Funding

A key factor in the delivery of any service is its funding. This is especially true of IFC AS, the emergence

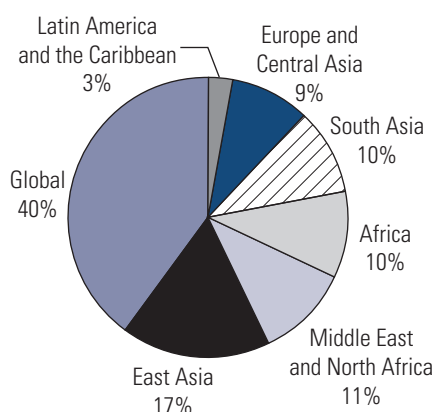
of which was closely associated with availability of donor funding. The heterogeneous nature of donor funding, and resultant programs, raised concerns within IFC about the efficiency of this model of funding for AS (not least because new initiatives required donor approval before being initiated, which could lead to delays in addressing client needs). Thus, in 2004 IFC established the Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS). At the same time, IFC began seeking donor funding across longer horizons, and on a more pooled basis (i.e., for a range of projects in a particular region, all regions, or within a certain business line). IFC also looked to new, nongovernmental sources of funding, such as institutional and private partners/foundations, which provided 20 percent and 3 percent of donor funds respectively, between 2004 and 2008. FMTAAS involves taking a portion of IFC's retained earnings and allocating it to the FMTAAS Trust Fund (using a sliding scale formula). Since 2004, IFC has made \$715 million worth of FMTAAS contributions. This compares with \$739 million of donor commitments, a leverage ratio of approximately 1:1 (table 3.4).²⁴ Total donor commitments have been highest for global programs, and lowest for Latin America and the Caribbean (figure 3.8), while donor leverage has been the greatest in South Asia, where donors cover all of the costs of the Bangladesh Investment Climate Facility, and most of the costs of SEDE, and lowest in Latin America and the Caribbean, where IFC is expecting to cover most of the Latin America and the Caribbean Program, the only facility in the region (table 3.5).

Table 3.4. Two Main Funding Sources: Donors and IFC

Year	Donor commitments (\$ million)	IFC FMTAAS commitments (\$million)	Total commitments (\$ million)	Leverage (donor \$ / IFC \$)
FY04	142.8	36.0	178.8	4.0
FY05	99.8	222.8	322.6	0.4
FY06	172.9	93.3	266.2	1.9
FY07	112.4	184.6	297.0	0.6
FY08	210.7	178.2	388.9	1.2
Total, FY04–FY08	738.6	714.9	1,453.5	1.03

Source: IFC Financial Controller reports.

Note: Donor funding comes from governments (77 percent of the total), institutions (20 percent), and private partners/foundations (3 percent).

Figure 3.8. Donor Commitments, by Region, FY05–FY08

Source: IFC.

Since donor commitments are now typically pooled for multiyear programs, and FMTAAS is designed as long-term pot of funds, IFC's AS programs are, in effect, funded several years out. About half of FMTAAS funds committed, \$332 million, has been spent to date. At the same time, the financial crisis is starting to affect commitments, in that no FMTAAS contributions are anticipated in FY09, and donor contributions for new programs may be adversely affected. Donor funding is sometimes still raised on a project-by-project basis, as in Central and Eastern Europe, which not only raises sustainability concerns, but also is not a cost-effective approach to fund raising.²⁵

In the last few years, IFC had been seeking a third source of funding—client contributions—which become even more relevant in the event that FMTAAS and donor funding falls substantially. The thinking behind this, set out in a pricing policy introduced in January 2007, is as follows: first, to obtain client commitment to a project or program; second, to avoid market distortion (competition with other knowledge providers and/or cross-subsidy of an IFC investment) by asking clients to pay toward the cost of private goods; third, to target any cost subsidies at public goods. The policy implies full cost contribution by clients in the case of a private good, such as corporate governance advice to a company, and some (though less than 100 percent) cost contribution in the

Table 3.5. Donor Funding Leverage Has Been Highest in South Asia

Rank	Region	Leverage (Donor \$ / IFC \$)
1	South Asia	7.9
2	Middle East and North Africa	3.3
3	Southern Europe and Central Asia	2.4
4	East Asia and Pacific	2.4
5	Africa	1.2
6	Central and Eastern Europe	1.2
7	Latin America and Caribbean	0.5

Source: IFC financial controller reports.

Note: Includes funding cycles that were current in June 2008.

case of a public good, for instance, advice to a government on business regulation. IFC management allows a certain degree of flexibility in applying the pricing policy, depending on the project context. However, staff are expected to start from the assumption of 100 percent client cost contribution, and justify any contribution less than that as a special case.

In the two years since it was introduced, *IFC's pricing policy implies 100 percent client cost contribution in the case of a private good.*

the pricing policy has yet to have significant traction. The vast majority of projects, before and after introduction of this policy, have received no or limited contributions by clients (figure 3.9). Realized client contributions for approvals in calendar year 2007 (following the introduction of the pricing policy) amounted to \$13 million, or 5 percent of total expenses—implying, improbably, that 95 percent of services were a public good in nature. By region, Middle East and North Africa has achieved the highest level of client cost contribution and Central and Eastern Europe, the least. By business line, client contributions were generally higher than the private good component (the share of excludable benefits the client receives): hence, INF and CA had higher cost recovery than BEE (table 3.6). Nonetheless, whichever region and business line, client cost contribution fell well short of 100 percent.

Realized client contributions amounted to 5 percent of total expenses.

Figure 3.9. Most Advisory Operations Featured No Client Contributions

Source: IFC database.

Note: Calculated as actual client cost contribution/actual expenses. Does not include in-kind contributions (e.g., use of office space), n = number of projects.

Table 3.6. Middle East and North Africa Region and Infrastructure Have the Most, Though Still Limited, Cost Contributions by Clients

Rank	Average cost recovery (%)			
	Region		Business line	
1	Middle East and North Africa	18%	INF	13%
2	Latin America and the Caribbean	8%	CA	7%
3	Sub-Saharan Africa	4%	A2F	5%
4	South Asia	3%	ESS	3%
5	Southern Europe and Central Asia	3%	BEE	1%
6	East Asia and Pacific	2%		
7	Central and Eastern Europe	1%	Overall	5%

Source: IFC database.

Note: Covers the period since January 2007 (when the Pricing Policy was introduced); calculated as actual client cost contribution/actual expenses. Does not include in-kind contributions (e.g., use of office space).

ity (the issue is magnified for short-term consultants, who will likely lose a future income flow in the event the project does not proceed). In other cases, clients who did not previously pay for IFC services have shown reluctance to commit to cost-sharing. Clients know that IFC is using other people's money (donor funds), which also perpetuates expectations that it should be free. Meanwhile, government clients often face fiscal, policy, and procedural constraints in providing contributions.²⁶ Cost contribution by clients is generally higher in non-IDA countries than IDA countries, though not always. For example, contributions have been considerably higher in Madagascar (an IDA country) than Indonesia (a non-IDA country).²⁷

The slow implementation of the pricing policy raises several concerns. First, the willingness of clients to contribute toward the cost of a service (where they are able to pay) provides some feedback about the value they place on the service—including for nominally public goods. Indeed, the IMF is also seeking to introduce charging for its Advisory Services,²⁸ while the International Bank for Reconstruction and Development (IBRD) charges on a full fee-for-service basis for some advisory work in upper middle-income countries (about \$15 million per year). In general, the higher the level of client contribution, the higher the value they assign to the project. In the absence of a contribution, there is no “market test” of the project's value. Indeed, the provision of free or near-free AS could be market distorting, because: i) the project may directly compete with projects offered by private providers of knowledge services; and ii) IFC may be indirectly cross-subsidizing an investment it has with the same client. The risk is that a company agrees to a loan it could have obtained in effect more cheaply from other sources, removing IFC's financial additionality in the deal. There appears to be some limited evidence of cross-subsidy (as shown in table 3.7), which will need to be addressed going forward. IFC additionality with respect to AS alone may also be in question, especially where the company is already being provided similar services.

In the absence of a contribution there is no “market test” of value.

In general, AS teams have found full execution of the pricing policy to be challenging. Staff report that they sometimes fear losing projects to other donors who are providing similar advice for free, or losing them altogether, if they ask clients to pay. This reflects somewhat of a supply-driven mental-

Table 3.7. Some Free or Near-Free Advisory Services Operations Cross-Subsidize IFC Investments

Type of IFC investment	Number of AS projects (Jan. 2007–Jan. 2008)	Level of cost recovery			
		Zero	1–50%	51–100%	>100%
Loan	41	66%	24%	5%	5%
Equity	17	88%	8%	0%	0%
Loan & equity	13	77%	12%	15%	0%
IS in prospect	18	83%	17%	0%	0%
All AS linked with investment (excluding BEE)	89	75%	18%	4%	2%
AS not linked with investment (excluding BEE)	200	85%	12%	2%	2%

Source: IFC database.

Note: As of November 2008. Numbers of projects by business line are too small for comparisons between business lines.

The pricing policy is cost-based, rather than market value-based. As a result, a 100 percent cost contribution by a client could still be market distorting, since it does not include a premium that would be normal for a commercial provider (which is the basis on which IFC investments are priced). Recognizing the inherent difficulties in pricing advice, value could also be determined in terms of client success or impacts, as in the case of INF advisory mandates, which charge fees on the basis of a transaction going ahead, or with energy efficiency audits. Alternatively, value could be linked to the future market value of the company, which is essentially the venture capital model of reward for up-front investment in a company (i.e., linking AS “payment” to a proportion of future equity value).

Project Design and Implementation

Past IEG evaluations and external reviews of specific AS programs have repeatedly stressed the importance of good project design and implementation for stronger impact, both for beneficial outcomes and the avoidance of adverse outcomes.²⁹ IFC has responded to the need for sound design and implementation by introducing standardized procedures for approval and supervision in 2005 and 2006 respectively. This review found some evidence of good practice design and implementation, for projects approved since then, but overall room for improvement remains. The INF and BEE business lines stood out as an area in which project de-

sign procedures were generally stronger, with INF having established quality-at-entry (QAE) components that mirror those used for new investment operations (i.e., with concept notes, clear risk identification, lessons from past operations, peer review, etc). However, quality-at-entry efforts of this depth were rare among other business lines, beyond the creation of standardized approval documents—with, as discussed earlier, often weak rationales for IFC embarking on a new project, and, as discussed later, limited use of appropriate baseline data.³⁰ Key design flaws identified in this and other reviews included: insufficient tailoring to local conditions (particularly when delivered from afar), and lack of realistic timetables.

The evaluation system does not currently track project implementation quality on a systematic basis, but past evaluation work shows that strong implementation can compensate for weaknesses in project design. Interviews with, and IEG’s survey of, managers and staff confirmed that project implementation quality has been highly inconsistent. The influences on project implementation quality that emerged in interviews with managers and staff, and in PCRs, included: level of staff experience, degree of staff continuity, balance between local and global, and in-house and external expertise, quality of short-term consultants, internal procedures which have made for a slow disbursement of funds, level of client com-

Table 3.8. Ratio of Staff to Consultant Expenses Is Roughly 1:1

Expense type	FY05		FY06		FY07		FY08		Average, FY05–FY08	
	\$ million	%	\$ million	%	\$ million	%	\$ million	%	\$ million	%
Staff	38.5	32%	51.0	34%	63.9	34%	82.7	34%	59.0	34%
Consultants	34.7	29%	37.1	25%	56.1	29%	72.3	30%	50.1	28%
Travel	13.0	11%	18.5	12%	23.4	12%	35.4	14%	22.6	13%
Other (e.g., office rent & equipment)	32.5	27%	42.5	29%	47.1	25%	54.3	22%	44.1	25%
Total	118.7	100%	149.1	100%	190.5	100%	244.7	100%	175.8	100%

Source: IFC Financial Controller reports.

mitment, lack of clearly defined exit strategies, tension between operational growth and portfolio quality, and lack of robust mechanisms to hold individuals accountable for poor deliverables. Client commitment, tailored knowledge, and strong performance M&E were especially important, as reflected in their effects on project performance ratings (see section on results).

The staffing model for AS differs from that of IS. First, AS staff have been based more in the field, as illustrated earlier. Second, they tend to be newer to IFC than those involved with investment operations (60 percent of AS staff have been with IFC less than three years). Third, over two-thirds of AS staff are on coterminous contracts (linking the staff contract to program funding). Fourth, there has also been a much higher propensity to use short-term consultants in project implementation on the AS side—AS employs as many consultants as staff each year, while IS employs twice as many staff as consultants. In general, reflective of the labor-intensive nature of knowledge provision, staffing and consultant costs have made up a higher share of total project costs—about a third each (table 3.8).

Several opportunities and challenges have emerged with this staffing model. First, since staff are based predominantly in the field, IFC should, in principle, be able to better appreciate client needs and tailor project design accordingly. On the other hand, as field staff tend to have stronger local than global expertise, it is a constant effort for IFC to ensure that it transmits international best prac-

tice to a local setting, and retains global knowledge as a comparative institutional advantage over other knowledge service providers. As IEG's evaluation of the PEP-ECA illustrated, getting the right local/global mix of staff is fundamental to success.³¹ Second, while contracts of shorter duration have provided IFC management with increased flexibility, they have also meant a less well-defined career path for AS staff, with career progression dependent on the continuity of program funding rather than one's professional potential. While competencies for AS staff have recently been developed, there are no explicit incentives for them, as there are for investment staff, either in the form of volume or locus of activities, or development impact. These factors help explain why the vast majority of IFC staff—whether or not they are employed in AS—believe that AS staff are less valued than their counterparts on the investment side.³² Going forward, given the greater presence of AS teams in the field, there may be avenues for more long-term arrangements, with AS staff driving greater synergies between the two arms of IFC's business. However, there would need to be appropriate training, including management for possible COI risk.

Third, the extensive use of short-term consultants in project delivery affords IFC the opportunity to buy-in expertise for a specific purpose, but it does also presents continuity and quality issues, with ramifications for IFC additionality. In FY08, the cost for employing consultants was \$72.3 million, only slightly less than IFC staff costs (\$82.7 million), with a consultants to staff ratio of

about 1:1. Continuity issues arise since the contract, by its nature, is a one-off arrangement, and IFC cannot promise clients any long-term implementation support if it does not reemploy the same consultant and needs to return to the market to recruit in the skills. Quality issues arise in the need to: i) train new consultants in IFC methods and procedures (not least M&E); and ii) offer unique knowledge, as IFC is effectively only functioning as a sourcing and funding agency if the consultant is already available in the market. Feedback from clients confirms these service continuity and quality concerns, suggesting in several cases that a more “hands-on” approach to oversight of short-term consultants might be required by IFC, and a general preference for IFC staff rather than consultant support.

M&E Systems

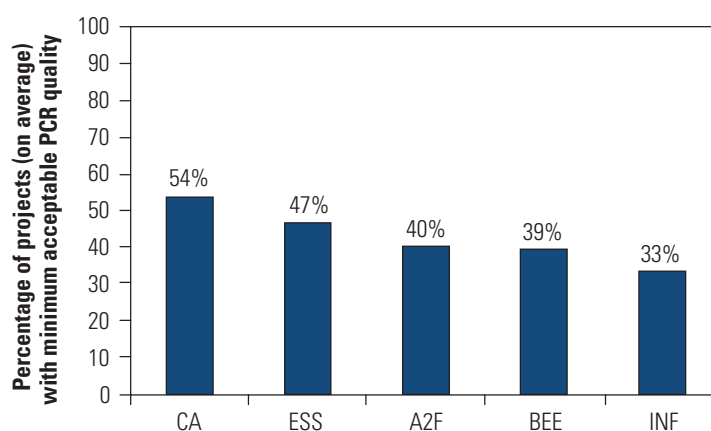
As mentioned earlier, effective M&E is essential for learning what works well, what does not, and how strategy and operations should be redirected going forward. IFC management understands the importance of M&E and, in 2006, introduced a new M&E system for AS, including standardized project approval, supervision, and completion reports. At completion, the AS team provides a self-assessment of performance in a Project Completion Report (PCR), followed by independent review and validation by IEG (EvNote). The PCR and EvNote are completed following project closure, as opposed to early operating maturity in the case of investment operations, which tend to have longer project lifecycles. PCRs are completed for all AS projects, unless they were dropped or terminated (which may be a lost opportunity for learning and bias results). IFC has complemented the introduction of the PCR system with the completion of some 51 program, product, and project reviews by commissioned consultants (including a handful of impact evaluations),³³ the establishment of an IFC/Bank Group project lessons awards program, portfolio review meetings, as well as experimenting with cost-benefit analysis. Finally, IFC has introduced activity-based costing, although managers and staff report limitations with the IT platform. Taken together, these efforts put IFC at the forefront of results measurement among MDBs and major donor organizations.

Notwithstanding these steps toward improved performance measurement, as with the introduction of most new systems, there have been “growing pains.” IEG has assessed PCR quality across the following dimensions: use of measurable indicators, appropriate baseline data, soundness of logic model (differentiation between outputs, outcomes, and impacts), comprehensiveness (discusses results of all components), concurrence with supervision reports, and incorporation of useful lessons.³⁴ Based on 458 reviews carried out by IEG between 2006 and 2008, there remains considerable scope for improvement, and the approval and supervision documents that precede the PCRs (e.g., in setting performance baselines and tracking performance against them). The CA business line and the Middle East and North Africa region show better quality than others, but the general picture is of low PCR quality (figures 3.10 and 3.11).³⁵

IFC-commissioned reviews of AS facilities, products and projects, while offering some insights on the organization and delivery of AS, have exhibited some issues with independence. An evaluation is independent when it is “carried out by entities and persons free of the control of those

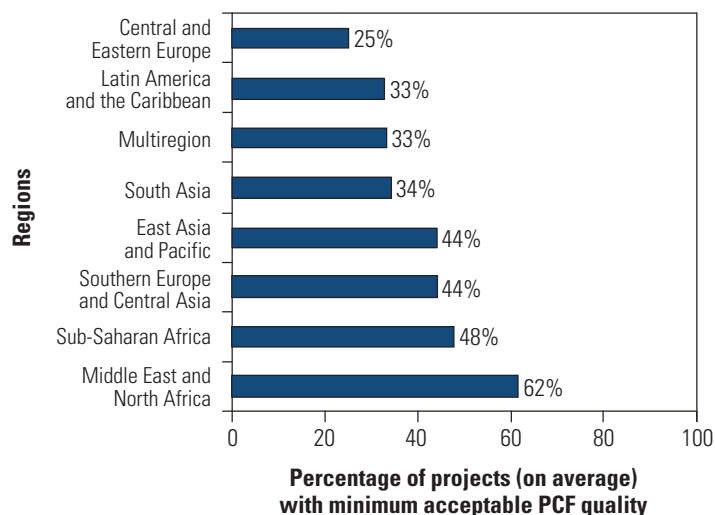
Extensive use of short-term consultants in Advisory Services has ramifications for IFC additionality.

Figure 3.10. Project Completion Report Quality, by Business Line



Source: IEG PCR Reviews, FY06–FY08.

Note: Minimum acceptable quality is defined as, on balance, incorporating the following dimensions “to some degree”: use of measurable indicators, appropriate baseline data, soundness of logic model, comprehensiveness (discusses results of all components), concurrence with supervision reports, and incorporation of useful lessons.

Figure 3.11. Project Completion Report Quality, by Region

Source: IEG PCR Reviews, FY06–FY08.

Note: Minimum acceptable quality is defined as, on balance, incorporating the following dimensions “to some degree”: use of measurable indicators, appropriate baseline data, soundness of logic model, comprehensiveness (discusses results of all components), concurrence with supervision reports, and incorporation of useful lessons.

IFC-commissioned reviews have offered insights, but exhibited issues with independence . . . and methodological quality has been inadequate.

responsible for the design and implementation of the development intervention.” This indicates that independent evaluation presumes “freedom from political influence and organizational pressure,” “full access to information,” and “full autonomy in carrying out investigations and reporting findings.”³⁶ By contrast, the facility and product reviews that have been conducted to date have often been commissioned, overseen, and approved by the responsible facility and product managers. Project reviews have been carried out in something of a more detached way, under the purview of the Results Measurement Unit. While IFC-commissioned reviews can never be truly independent, the degree of freedom from political influence and organizational pressure can be enhanced, for example, through a different part of the organization from that being reviewed initiating and managing the review.

Corporate performance indicators for Advisory Services are very limited.

Methodological quality has also been inadequate. The methodological approach has often not been well arti-

culated and, in the case of regional reviews, has, to a large extent, depended on interview evidence. In one case, the program team requested that the consultant focus the review on just four cases, all success stories. Also, the product and project evaluations have been highly clustered in the CA business line (see table 3.9), suggesting the need for more systematic selection of evaluation topics.³⁷ Also, the reviews to date have placed limited emphasis on results and more on delivery (table 3.10 and appendix I). Such a focus clearly limits the generalizations that can be made about the performance of a facility, product or project, and ultimately weakens the basis on which decisions can be made about future funding.

A good results measurement system should pervade an organization. On this basis, there are some other gaps in terms of the M&E of AS. At the corporate level, IFC’s scorecard, albeit with some limitations, includes targets for IFC development impact and reach largely through its investment operations. Indicators for AS are very limited, which to some extent reflects the relative immaturity of the project M&E system, but also the absence of established M&E indicators for IFC’s impact at a programmatic level.³⁸ The targets that are included for AS pertain to the number of public-private partnership advisory mandates and the level of overall AS expenditures, neither of which captures IFC’s development impact.³⁹

Collaboration with Others

Strategic cooperation—both internally and externally—is critical for IFC if it is going to maximize its additionality and play its development role to the fullest. The need for good cooperation also applies to service delivery (collaboration). This section looks at three important types of service delivery collaboration: i) with IFC investment operations, ii) across the Bank Group, and iii) with donors.

Between 2006 and 2008, some 30 percent of AS projects were with existing or potential IFC investment clients (figure 3.12). This contrasts with EBRD, where 88 percent of AS activities support EBRD investment projects, and the European In-

Table 3.9. Few External Reviews Have Thus Far Focused on Impact

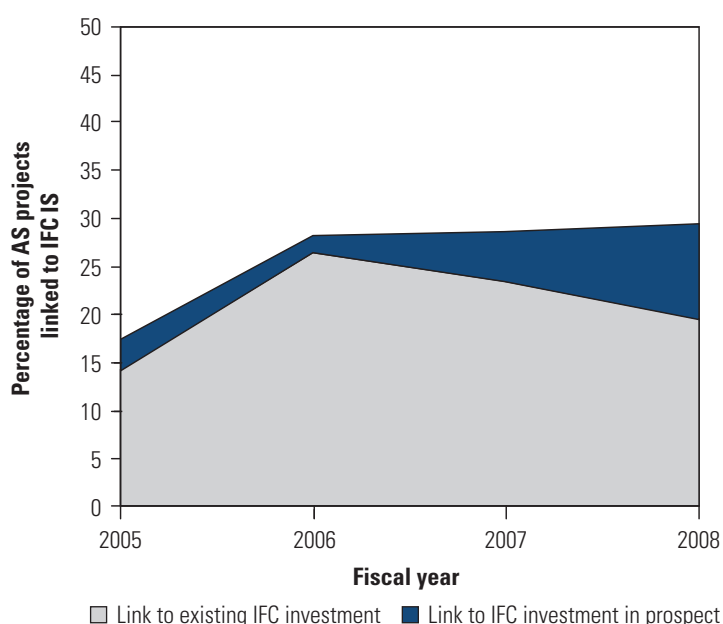
Level	Coverage	Focus of Review	Number	Business Line	Region
Program	Regional facility	Delivery	6	All	EAP, LAC, MENA, SA, SSA
	A2F business line	Delivery	1	A2F	na
Product	Single product	Delivery	16	A2F: 3	na
				BEE: 2	
				CA: 10	
				ESS: 1	
Project:	Single project			For all projects reviews:	
Ex post		Outcomes vs. objectives	10	A2F: 2 CA: 13 BEE: 6 ESS: 2 INF: 5	LAC: 9
Ex ante		Performance baseline	8		SSA: 6
During		Progress report	3		EAP: 5
With/without		Impact vs. alternative:			SECA: 3
		Pre/post	3		MENA: 2
		Quasi-experimental	3		CEE: 2
		Experimental	1		SA: 1
TOTAL			51		

Source: IEG, based on IFC Results Measurement Unit report database.

Note: Based on reviews that had been completed by December, 2008.

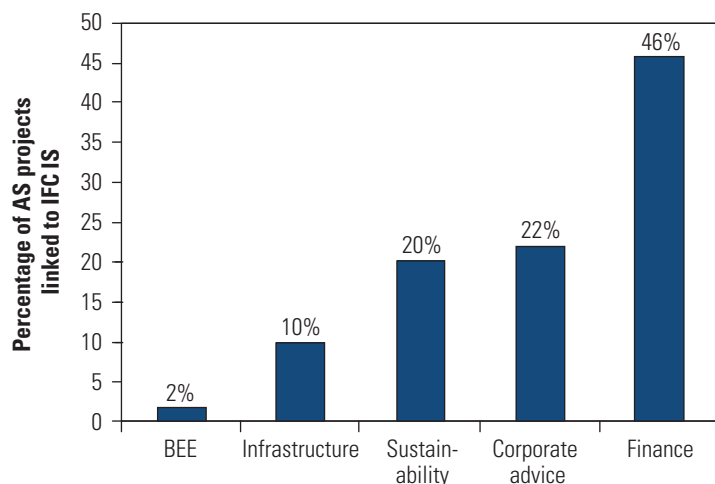
vestment Bank (EIB) where virtually all AS is tied to existing or potential investments. As figure 3.13 shows, links are especially strong for A2F projects (46 percent), and most limited for BEE projects (2 percent, reflecting their predominantly public good nature). The section on results examines whether stronger additionality and development impact seem to have been realized as a consequence of various ties between AS and investment operations.

Beyond the project level, there has been limited programmatic integration between AS and IS to date, reflecting some of the alignment challenges cited earlier. IEG's survey of, and interviews with, IFC managers and staff, found repeated reference to integration between AS and IS as something IFC did least well in delivering its AS. They also pointed to disincentives to align, discussed earlier, such as different program and personal objectives (the latter particularly important for AS staff whose future depends on the continuation of a program), as well as practical constraints, such as unclear understanding about the intended

Figure 3.12. About One-Fifth of Advisory Services Operations Are Linked to IFC Investment Services Operations

Source: IFC database.

Figure 3.13. Advisory and Investment Services Linkages Are Greatest for Access to Finance Operations



Source: IFC database.

model for AS/IS integration, and different program timetables and cultural differences between the two businesses. As IFC continues to decentralize its IS, there appears to be strong potential for AS to serve as the anchor for linkages between the two, because it is a generally more programmatic business, with greater field presence. But a clear integration paradigm and operational incentives to integrate are not yet apparent.

Whatever the model, closer integration brings with it the possibility of COI, which is fundamental for any business, especially an advisory business, and needs to be carefully managed. Objectivity of advice is key for maintaining a good business reputation, and can be impaired in situations where AS is perceived to be unduly influenced by the presence of an IFC investment or financial interest, or is motivated primarily by a desire to help IFC generate new business in the form of new investments. It is important, therefore, for IFC to maintain its independence in offering knowledge

services to its clients, and to have procedures in place to manage potential, actual, and perceived COI.

Conflicts of interest needs to be carefully managed.

Conflicts between IFC AS and IS relate to IFC having an actual, apparent, or possible financial interest (e.g., loan or equity interest) in an issue

on which IFC is advising. For example, an IFC investee company may express interest in bidding for a privatization deal on which IFC is acting as an advisor. In this case, the AS infrastructure advisory team's independence and objectivity could be compromised by a perception of favoritism, or if public confidence in their independence and handling of confidential information is eroded. COI risk can arise when IFC, on one hand, gives regulatory advice to government clients, and, on the other, has investment or financial interest in private sector entities whose business prospects are materially affected by the regulatory advice. For instance, an AS project involving assistance to a central bank to develop banking supervision modalities raises significant COI concerns, if IFC has investment interests in the regulated banks in the country. Such cases typically exhibit greater COI risk than single-borrower AS projects delivered to IFC investee companies.⁴⁰

IFC's COI guidelines stipulate that business line leaders and regional directors are primarily responsible for identifying actual, potential, or perceived COI with respect to operations in their respective departments, and managing these cases—with or without the assistance of the COI office. Staff are expected to inform the business line leaders and/or regional directors in a timely fashion about any issues relating to COI, and leaders/directors determine whether any COI exists, and whether assignments should be referred to the COI office for clearance (as well as whether directors outside of the joint departments are likely to be affected and should be notified). Handling of COI is also the responsibility of leaders and directors, as is ensuring that staff are adequately trained. The COI guidelines lay out several mechanisms that should be considered in effective handling of COI: i) providing full disclosure to the affected parties; ii) obtaining client consent to multiple roles to be played by Bank Group entities; iii) instituting separate project teams as appropriate; iv) sequencing assignments; v) reducing the scope of an assignment; vi) transferring the assignment to a unit outside the jointly managed department; and vii) establishing mechanisms to protect the flow of confidential and other sensitive information.

In the past, there had been no systematic data on the extent to which COI cases were identified and settled outside of those referred to the COI office, so it was not possible to determine how comprehensively those cases had been identified and managed. AS/IS conflict situations accounted for 151 (51 percent) of 298 total referrals to the Bank Group COI office between FY06 and FY08. By business line, most Advisory/Investment COI cases relate to the INF and A2F business lines (39 and 29 percent of cases, respectively).⁴¹

The fact that only a quarter of AS projects with IS connections that were approved in the last three years were referred to the COI office could alternatively be a sign of weak identification of COI or strong local management and resolution (without the need for intervention from the COI office). However, IEG's survey of IFC managers and staff does suggest some scope for improvement. In the survey, respondents reported that nearly 40 percent of the time, when a conflict did arise, they did not feel that it had been resolved effectively. IFC's new COI guidelines should, if applied correctly, help improve conflict resolution, in that they call for identification of actual, potential, or perceived COI in each new project approval document, which did not happen before. However, the guidelines do not call for ongoing tracking of COI cases in project supervision and completion documents, which could be a useful complement. The INF business line seems to stand out as an area of relatively good practice—with well-established procedures for transparently disclosing information to affected parties, protecting the flow of confidential information through the establishment of “firewalls” between AS and IS teams, and sequencing assignments. Beyond guidelines and procedures, experience suggests that the commitment and leadership of managers (business line leaders and regional directors) plays an important role in effective COI management.

Collaboration in knowledge service provision across the Bank Group is important in at least two respects. From a purely practical perspective, IFC shares the same primary client as the Bank in about half of its AS operations: government. Close coordination of efforts can provide for delivery efficiencies, on the part of both the Bank Group as

providers and also government as a client (lower transaction costs). More importantly, combining approaches has the potential to contribute to greater development impact, through identification and exploitation of respective comparative advantages and synergies, avoiding service duplication, and learning from one another. This potential has been recognized by IFC and Bank management, and various steps have been taken to align service delivery, including: establishment of joint departments and teams; transfer of MIGA Investment Promotion Agency technical assistance work to FIAS/IFC; joint IDA/IFC Secretariat; joint strategy sessions; and guidelines for IFC advisory staff on cooperation with the Bank. It should be noted that the costs and risks of cooperation may sometimes exceed the benefits of cooperation, and thus the appropriate level of cooperation needs to be judiciously determined.⁴²

In principle, there is most fertile ground for cooperation on BEE and INF work, where the client is typically government. Opportunities for cooperation do also arise in relation to ESS, A2F, and CA, although generally to a lesser extent (client is usually not government). In practice, cooperation appears to have followed this pattern. Of the 26 percent of new project approvals in FY07 and FY08 that refer to Bank activities, nearly two-thirds were BEE operations and one-sixth were INF operations. While documentary reference to another institution's activities does not necessarily mean that there was actual cooperation or that it was of a good quality, these data are consistent with feedback received from interviewed IFC and Bank staff about areas in which cooperation is taking place.⁴³ Recent examples of Bank Group cooperation include: a joint Doing Business Reform Advisory unit; BEE programs in Bangladesh, Kenya, and Yemen; joint infrastructure projects in Kenya, Senegal, and Uganda; and IFC advisory staff providing diagnostic and implementation support to IBRD loans in Georgia and Tajikistan.

At the same time, staff also pointed to a lack of organizational and personal incentives to cooperate, and even to compete with one another,⁴⁴ as well as a lack of clarity about the other institution's products, delivery mechanisms, respective roles

There is most fertile ground for cooperation on BEE and INF work, where the client is the government.

and comparative advantages. In Bangladesh, for example, Bank staff had little knowledge of the nature of IFC's AS activities in the country, and vice versa. In general, staff felt that opportunities to exploit synergies were not being maximized, with potential in some cases for service duplication. The fact that about half of new IFC AS project approvals with government clients do not even mention the Bank provides broad corroboration of less than optimal engagement across the Bank Group. Issues of competition, or overlap, came up most in relation to BEE work, where the line between one institution's activities and those of the other is blurred. Client governments can potentially be dealing with four different units of the Bank Group (Financial and Private Sector Development, Poverty Reduction and Economic Management Network, FIAS, and an IFC regional facility). At present, joint BEE teams that bring these units together in one delivery platform are the exception, not the norm. The relative growth of IFC/FIAS activities provides an impetus for renewed focus on alignment of BEE services across the Bank Group, although there does seem to be resistance from some individuals, who fear a loss of established "turf." There is no system in place to systematically measure and monitor the results of such efforts, which is an issue for the Bank Group as a whole to address, and which has been identified in previous IEG evaluations (in addition to general incentive issues).⁴⁵

During the course of its regional visits, IEG met with about 30 representatives of donor organizations, who provided valuable feedback on IFC's delivery performance. Donors included the Canadian International Development Agency, U.K. Department for International Development (DFID), Netherlands Development Finance Company, Swedish International Development Agency, and U.S. Agency for International Development—all major contributors of funds to IFC AS programs. On the whole, donors reported a high level of satisfaction with IFC, offering favorable views on the technical quality, relevance, and timeliness of IFC's work, as well as the pricing policy (as a means to reduce subsidies for the supply of private goods, and target donor funds purely at public goods, if implemented effectively), and the relative sophistication of IFC's M&E framework (although they had yet to see much reporting on outcomes and

impacts). IEG's survey of IFC managers and staff, as well as an IFC-commissioned survey of donors, broadly concur with the view that IFC's relationship with donors in the field is generally sound.

Some donor representatives, however, felt that IFC should be more active in its outreach and knowledge dissemination. The desire for more IFC outreach was also raised by other stakeholders (e.g., United Nations Development Programme, U.S. Agency for International Development) during IEG field visits. IFC was frequently compared to the Bank, and several times stakeholders felt that "IFC is not at the table." In other words, IFC's presence in the field does not appear to have translated into visible outreach for some stakeholders. "We know IFC is there, but we do not feel them" was another comment that was made. This view was shared by a number of IFC managers and staff interviewed by IEG, who also felt that it was, to some extent, a trade-off of rapid growth (i.e., lack of time to do outreach). Donors generally had the most favorable view of outreach efforts in the Europe and Central Asia region. However, the approach in this region does rely on a different funding structure and engagement with donors—project by project—which is not the case in other regions, so it may not be replicable. In which case, an alternative approach may be required, such as more dedicated donor/partnership relations in the field. At present, the outreach task often falls to managers and staff, who are otherwise engaged in program delivery.

Comparing IFC AS: How Others Deliver Knowledge Services

It is instructive to compare the way IFC delivers its AS with other development institutions that have private sector-oriented knowledge services programs. IEG's comparator review included a comparison of the funding/pricing, delivery mechanisms, and M&E systems of each of the major multilateral donors—EBRD, ADB, IDB, AfDB, European Commission, and European Investment Bank—and two bilateral donors, DFID and the Danish International Development Agency.⁴⁶ The review also looked at their knowledge service strategies, activities, comparative advantages, and evaluated results, which are covered elsewhere in the chapter. It should be noted that some benchmarking of

Box 3.1. How Does IFC's Delivery Approach Compare with That of Other Development Institutions?

The high-level benchmarking exercise found a number of common delivery issues among institutions, and some relative strengths of IFC in terms of its delivery approach. Highlights of the review include:

Funding/pricing: Most organizations rely heavily on donor funding (more efficient if pooled), and provide knowledge services free of charge. Although some MDBs (notably EBRD and ADB) have made progress in defining cost recovery policies, IFC is relatively advanced in its thinking in this area (at least in principle, with a private/public good-based pricing policy).

Project design and implementation: In general, relatively ad-hoc project selection (more than strategies would suggest), and weak quality-at-entry; striking a bal-

ance between local and regional/global staffing and between using in-house staff and consultants; lack of output/product standardization (which IFC is moving toward).

M&E: Most development banks do a poor job of separating knowledge services from other activities for the purposes of monitoring, defining performance indicators, and conducting ex-post evaluations. Although some development banks (EBRD and ADB) have begun to adopt better M&E systems, IFC appears to be ahead in its approach.

Internal coordination: For MDBs that provide advice and lend directly to private firms, COI procedures do not appear to be well advanced.

service provision with other institutions has taken place in IFC, but on a fairly limited scale.⁴⁷ IFC may accordingly be missing out on opportunities for learning from others, and adjusting its services for maximum comparative advantage and impact.

The comparator review found a number of common delivery issues among institutions, with IFC's delivery approach generally comparing favorably with that of other development institutions. Common delivery issues included: improving donor coordination through pooled funding approaches; relative ad-hoc project design and weak quality at entry; striking a balance between local and non-local staff; and between in-house and outsourced expertise. IFC exhibited relative strengths in terms of its approach to funding (pricing policy), M&E, procedures for handling COI, and steps toward greater product standardization—assuming these measures are implemented effectively. (See box 3.1 for a summary of findings of the review of comparator MDBs).

Results of IFC Advisory Services

This section examines the following dimensions of IFC AS results:

- Relevance of resource allocation
- Project development effectiveness
- IFC additionality.

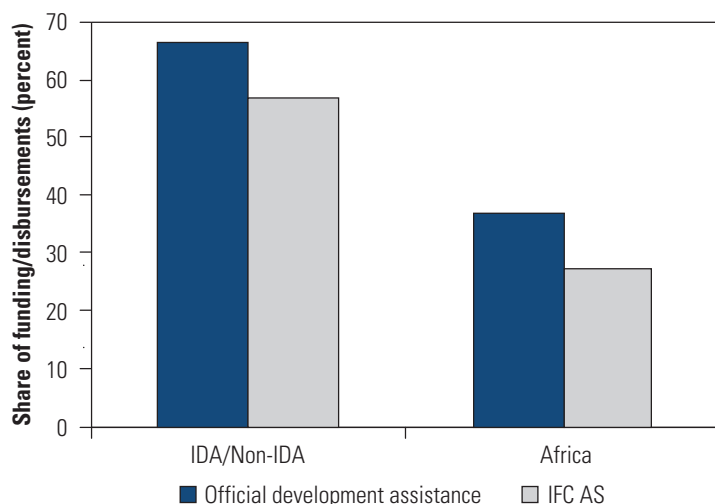
It concludes by examining the performance experiences of other MDBs that provide knowledge services. Currently, M&E systems and standards are too immature across the various institutions to enable direct performance comparisons.

Relevance of Resource Allocation

A necessary (but not sufficient) condition for development effectiveness is relevance: the extent to which resources were allocated where the need was greatest, and consistent with corporate strategic priorities. IFC appears to be targeting its AS resources toward high-need destinations (and Bank Group strategic priorities), i.e., Sub-Saharan Africa as a region and low-income IDA countries more generally. This allocation pattern is broadly in line with the general pattern of official overseas development aid—grants, loans, and technical assistance provided by official agencies to developing countries (figure 3.14). It, thus, reinforces the need for IFC to carefully map its activities against those of other aid organizations, particularly where the client is a government agency and recipient absorptive capacity is weak, to avoid overlap.⁴⁸

By business line, resource allocation has focused on countries that would appear to be most in need, *prima facie*, of knowledge services (see table 3.10). Individual project evaluations sup-

Figure 3.14. Majority of Operations in IDA Countries Are Similar to Official Aid Pattern



Source: IFC and OECD databases.

Note: Shares are based on 2006–07 calendar year AS funding and net official development assistance disbursements.

Table 3.10. By Business Line, Resources Have Tended to Be Allocated to Countries in Greatest Need

Business line: IS sector	Country indicator	Share of AS operations	Share of IFC IS operations
A2F: Finance (Inv)	< ½ of population has access to a formal account	87%	84%
BEE: All (Inv)	High risk ^a and/or in the bottom half of Doing Business rankings	80%	62%
CA: All (Inv)	Informality > 30%	63%	69%
INF: Infra (Inv)	< 10 prior PPI projects	66%	43%
ESS: All (Inv)	Bottom half of Environment Protection Index rankings	74%	52%

Source: IFC and Doing Business databases; Institutional Investor; World Bank A2F and PPI databases, Environmental Performance Index 2008.

a. With an Institutional Investor country credit risk rating of less than 30 (out of 100). Computed by \$ volume, as of June 2008.

port this conclusion, with strategic relevance rated high in the vast majority of cases. Instances of low strategic relevance, however, even if relatively small in number, do tie up resources that could be used on other, more relevant endeavors (i.e., they impose an opportunity cost on IFC). There may also be implications for IFC additionality, if the service IFC is providing could have been obtained from another source—as with a small number of operations in high-income countries (nominally intended to support “South-South” investments). For some business lines, there is no direct comparator with the pattern of IFC investments, but where there is (e.g., infrastructure), AS appear to be somewhat more oriented to high-need countries. This reflects the demand for appropriate enabling environments for investments to take place (e.g., an appropriate legal framework for public-private partnerships). It also highlights the potential for AS to serve as an anchor for closer synergies between AS and IS teams—rather than the alternative of AS feeding off investment client needs—in that the AS intervention in the sector would precede, and help set up the conditions for, the investment intervention (so long as the investment takes place on a level playing field, avoiding any COI, as discussed above).

Project Development Effectiveness

The real test of effective resource allocation is whether the project actually delivered beneficial impact in the field. The PCR system, introduced in 2006, seeks to capture such results. This system, as well as assessing strategic relevance, includes measures of output achievement, outcome achievement, and impact achievement. Taken together, considering also the project’s efficiency, an overall synthesis rating (not an average) is assigned for the project’s development effectiveness. (See box 3.2 for definitions and criteria for each of these evaluative terms).

Considering the relative immaturity of the PCR system, IEG has focused much of its effort to date on the evaluative substance of the PCRs, assessing the sufficiency of evidence and correct application of the guidance in assigning ratings—supplemented with selective field validation. In 2008, IEG undertook field verification of performance in

Box 3.2. How Is Development Effectiveness Rated?

PCR performance ratings, which IEG verifies through desk and field validation, are assigned in the following dimensions:

Strategic relevance—Importance to achieving country strategic objectives, appropriateness at initiation and completion, including whether AS was the appropriate instrument.

Output achievement—Immediate project deliverables (products, capital goods, services, or advice).

Outcome achievement—Short- or medium-term behavioral changes resulting from the advisory project (positive and negative, intended or unintended).

Impact achievement—Intended longer-term effects of the advisory intervention.

Efficiency—Ratio of costs to benefits; economy in the use of resources; cost in relation to alternatives

These ratings are then synthesized (not averaged) into a single **development effectiveness** rating, on a six-point scale from highly successful (overwhelmingly positive development results and virtually no flaws) to highly unsuccessful (negative developments and no positive aspects to compensate). The full rating criteria for each of the indicators are set out in appendix H.

about one-third of cases.⁴⁹ IEG has reviewed 458 out of 707 PCRs completed by IFC up to June 2008—a coverage rate of 65 percent, and representative across multiple dimensions. (See appendix G for further details).

Evidence of achieved results from AS can be hard to discern for two reasons related to the nature of knowledge transmission. First, knowledge, in many senses, is intangible. New methods of thinking and work habits, and their effects, can not easily be measured. Second, even when knowledge is tangible, such as with the specific diagnosis of a gap in business procedures, the response (improved procedures) may take some time after project completion to have an impact (because those affected by the new procedures take time to adapt). Thus, some knowledge impacts will never be captured, and others not at project completion, when results evaluation is currently carried out. These constraints are compounded by the relatively weak application of M&E guidelines to date by IFC staff. Having more consistent M&E quality, where development effectiveness is discernable, as well as after-project-completion, M&E follow-up, would enable greater understanding of development effectiveness.

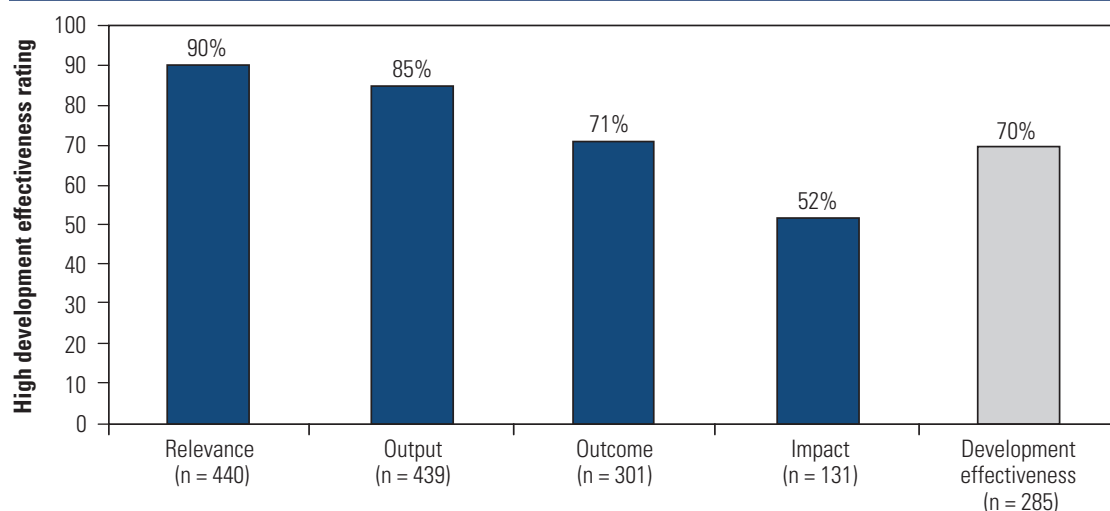
Together, these factors have contributed to IEG being unable to assign development effective-

ness ratings in 38 percent of reviewed operations, and impact ratings in 72 percent of cases.⁵⁰ Of the 38 percent of cases, some 25 percent were rated too soon to tell at the time of completion. Weak M&E quality meant that development effectiveness was not discernable in approximately 10 percent of cases.⁵¹ More consistent M&E quality, as well as after-project-completion follow-up, would enable greater understanding of development effectiveness.

Of the 285 projects for which development effectiveness ratings could be assigned, some 70 percent were rated high for development effectiveness. Among the individual indicators, there was considerable divergence. As figure 3.15 shows, projects were rated strongest on strategic relevance (90 percent high), and weakest on impact achievement (52 percent high). Illustrations of high development effectiveness are provided in box 3.3. The impact rating is a particular concern because IFC is ultimately in the business of promoting development impact. However, impact is less within IFC's control than relevance, since it takes time to achieve and in the process can be influenced by exogenous factors, notably the level of client commitment to the project.

The INF, BEE, and CA business lines exhibited the highest development effectiveness ratings (be-

Figure 3.15. Strategic Relevance Was Often Rated High, Impact Achievement Much Less So



Source: IEG PCR Review data.

Note: Excludes cases where it was too early, or data were insufficient, to discern performance. The justifications for the “efficiency” rating have been particularly weak given that the use of cost-benefit analysis has been introduced only recently. Staff also failed to provide information on cost effectiveness (other potentially less costly ways to achieve the objectives) and the comparison to other, similar projects to assess whether resources were spent economically. As a result of these weak justifications and missing analysis, IEG was unable in a majority of projects to validate the self-rating for efficiency. Also, in cases where it is still too early to observe and measure the outcomes and impacts of a project, it is similarly difficult to assess efficiency in the absence of knowledge about the quality of results.

Box 3.3. What Does Strong Advisory Services Development Performance Look Like?

Development results span a range of different social, economic, and financial indicators, depending on the business line and product type. Thus it is not possible to compare directly the realized impacts across all projects, but rather the extent to which each project met its impact objectives. Below are illustrations of different kinds of project development results:

Access to Finance: IFC’s training program paved the way for \$32 million of new trade finance to four client banks.

Business Enabling Environment: Implementation of IFC report recommendations led to average number of days to obtain a business license in the country, a major barrier to business establishment (and thus job creation), to be reduced by 93 percent.

Corporate Advice: An IFC-designed linkages project directly helped 200 small businesses win contracts with an IFC client worth approximately \$40 million per year.

Environmental and Social Sustainability: IFC project helped improve the labor conditions for over 50,000 workers in a country’s apparel industry.

Infrastructure: IFC assisted a government in tendering for a Public-Private Partnership arrangement, covering dialysis services for eight public hospitals, which led to higher-quality dialysis treatment for over 200,000 people.

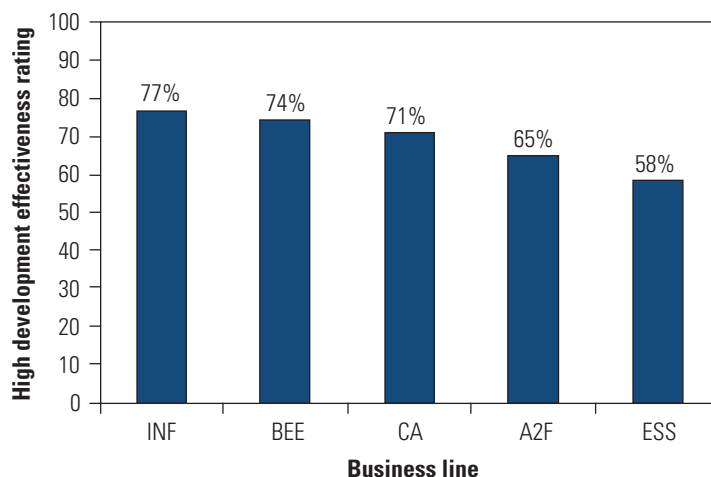
tween 71 and 77 percent high). However, performance lagged in ESS, which had a significantly lower proportion of projects with high ratings, 58 percent, than other business lines (figure 3.16).

This was mainly associated with weak performance in Latin America and the Caribbean and Sub-Saharan Africa (42 percent and 17 percent of projects, respectively, achieved high ratings). The ESS

ratings are a matter of concern, for a number of reasons. First, as evaluation of IS has shown, Sub-Saharan Africa has historically exhibited the weakest standards of, and commitment to, environmental and social performance, both at the country and company levels.⁵² Second, ESS is one of the main business lines in the Latin America and the Caribbean region, accounting for about a quarter of projects. Third, attention to environmental and social issues tends to weaken when companies are in financial distress, which is a growing phenomenon in light of the current global financial crisis. It should be noted that products in the ESS business line are generally younger and less often replicated than those of other business lines. It is therefore doubly important that IFC learns lessons from these experiences, including through more robust lesson capture in PCRs, to improve its contribution to sustainable development.

In one case for an African FI in which IFC had an existing investment, IFC designed a project to improve the environmental due diligence capacity of its 50 loan officers, and to help improve oversight of the company's subprojects. The project had to be cancelled due to lack of client buy-in (the client did not see the fit between the project and their bottom-line/competitive advantage), and funds were returned to the donor. This shows the importance of client commitment, but also the chal-

Figure 3.16. Environmental and Social Sustainability Project Ratings Have Lagged Behind Those of Other Business Lines



Source: IEG PCR Review data.

Note: Excludes cases where it was too early, or data were insufficient, to discern performance.

lenges encountered when IFC tries to persuade clients that environmental and social sustainability is a worthwhile pursuit. Lack of local IFC E&S presence seems to have been a limiting factor.⁵³

(Box 3.4 provides other examples of low development impact across different business lines.)

The INF, BEE and CA business lines exhibited highest effectiveness ratings.

Box 3.4. Illustrations of Low Development Impact

Below are examples of intended impacts that were not achieved in IFC projects:

Access to Finance: A project to train an IFC investment client bank's 50 loan officers in environmental due diligence (and thereby improve oversight over the FI's subprojects) was cancelled due to lack of client buy-in (the client did not see the fit between the project and their bottom-line/competitive advantage), and funds returned to the donor.

Business Enabling Environment: A project to improve the ease of business registration did not have the desired effect of reducing informality.

Corporate Advice: A training program designed to enhance the capacity of local consultants, who were to train 60 micro, small, and medium enterprises in good management practices, was managed poorly and terminated early, without the desired capacity-building effect.

Environmental and Social Sustainability: An experimental project to promote sustainable cultivation in the rainforest, so locals could earn a better living from conserving the forest (rather than cutting it down), led to only 17 out of the anticipated 250 farmers reaching minimum wage; problems between the sponsors ultimately led to the cancellation of the project.

Table 3.11. Selected Ratings, by Product

Rank	Product	Classification	Business line	% High
1	SME linkages (with IFC inv)	In development	CA	100%
2	INF—other	Other	INF	90%
3	Industry-specific BEE	Entry	BEE	82%
8	Non-(IFC) investment linked value chain/sector work	Exit	CA	64%
9	Investment policy & promotion	Developed	BEE	61%
10	CA—other	Other	CA	59%

Source: IEG PCR Review data.

Note: Product lines with 10 or more project ratings.

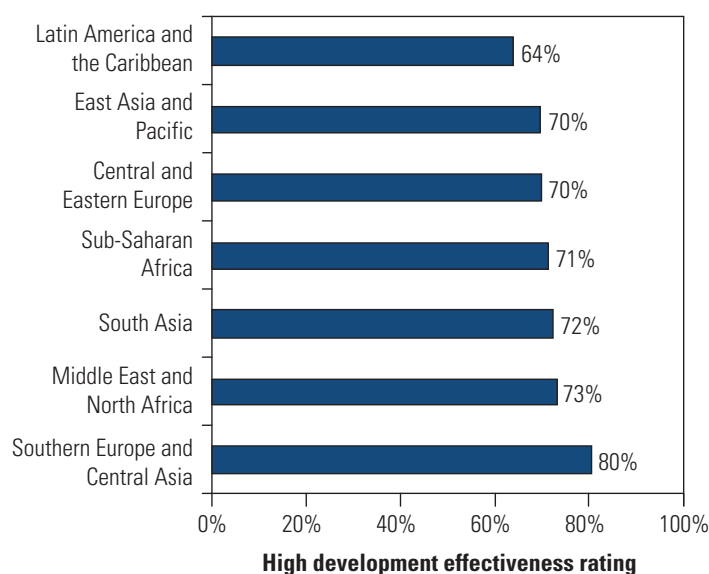
For those product lines with 10 or more ratings, performance was highest for SME linkages work in the agribusiness, extractive, and manufacturing sectors (100 percent, much higher than for noninvestment-linked value chain work) and lowest for “CA—other” (59 percent) (table 3.11). Since product maturity is based partly on achieved results, this may imply that linkages projects should graduate from “in development” to “developed” product status. The ratings also seem to endorse

the “exit” classification of non-IFC investment-linked value chain work, and imply that the “developed” classification of Investment Policy and Promotion projects may need to be reconsidered (or execution improved).

By region, Southern Europe and Central Asia operations were rated significantly higher than other regions (figure 3.17), while those in Latin America and the Caribbean (and a small number of global operations) lagged significantly. All business lines in Southern Europe and Central Asia other than A2F were rated high, with performance especially strong in Serbia and Macedonia. Meanwhile, multiregion operations related to A2F projects were mostly rated low, while relatively low ratings in the ESS business line (where projects were spread thinly across 10 countries) pulled down Latin America and the Caribbean’s overall performance.

What explains high and low ratings for development effectiveness? Given that the M&E system is still evolving, it is premature to construct an econometric model of project performance, as IEG has done for IFC investment operations. That said, IEG’s validation work does suggest a number of possible project success factors:

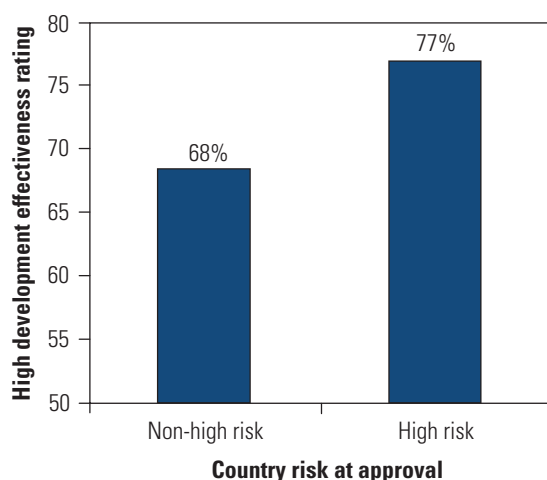
- (i) Country conditions: AS performance is stronger in high-risk environments (figure 3.18), driven by strong performance in BEE operations.⁵⁴

Figure 3.17. Ratings of Operations, by Region

Source: IEG PCR Review data.

Note: Excludes cases where it was too early, or data were insufficient, to discern performance.

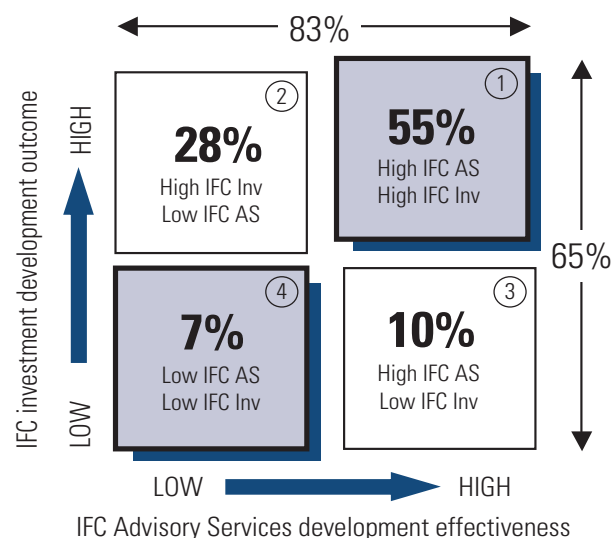
Figure 3.18. Country Conditions: Better Ratings Where Country Business Climate Risk Is High



Source: IEG PCR Review data.

Note: Excludes multiregion projects, and projects with no country business climate risk data; where no development effectiveness rating was possible.

Figure 3.19. The Overall Relationship between Advisory and Investment Services Performance Is Moderate



Source: IEG PCR Review data.

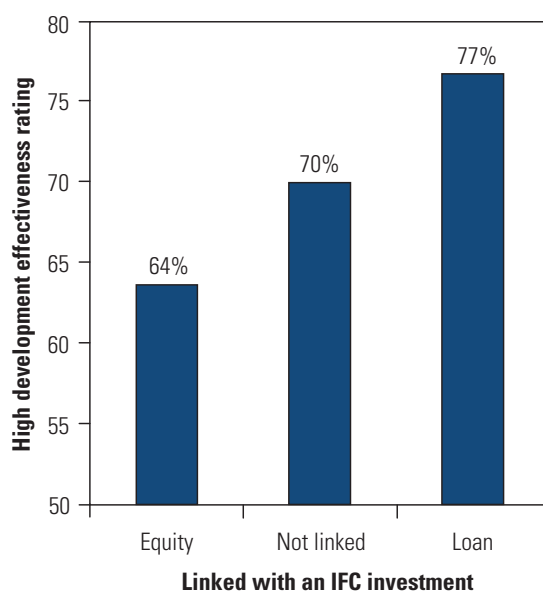
Note: Based on 30 instances of AS and IS with the same client, for which performance data for both types of services were available.

- (ii) Certain programmatic interventions:
 - Some (though not all) AS and IS combinations, such as linkage operations in agribusiness, manufacturing, oil, gas, mining, and chemicals (table 3.11), and ESS interventions with investee clients. The overall relationship between the performance of AS and IS provided to the same client is moderate (figure 3.19).
 - Where AS was combined with an IFC loan rather than equity, AS development performance seems to have been stronger (figure 3.20), which may reflect greater interaction with, and leverage over clients to implement changes recommended by AS in the case of loans. On the investment side, more than half of equity investments (57 percent) achieved high development outcome ratings, in spite of low AS ratings;⁵⁵ and
 - Where AS operations were sequenced, rather than one-off (figure 3.21).
- (iii) Client commitment/buy-in: Better ratings where the client contributed some or all

of the costs of the project, which is an indication of commitment (figure 3.22). This effect is particularly pronounced for ESS operations, where projects with no client contributions achieved high ratings in only 44 percent of cases, compared with 70 percent of cases where there was a client contribution.

- (iv) Sound project design:
 - Realistic objectives and timetable;
 - Tailored to local conditions (a possible problem with multiregion offerings and ESS operations, many of which are managed from headquarters);
 - Clearly defined exit strategy.
- (v) Effective project implementation:
 - Good mix of global and local expertise, with locally based task leader (figure 3.23);
 - Good quality consultants (where used);
 - Effective cooperation with Bank and others;
 - Implemented on schedule (i.e., without delay);
 - Flexibility to respond to country and market needs.

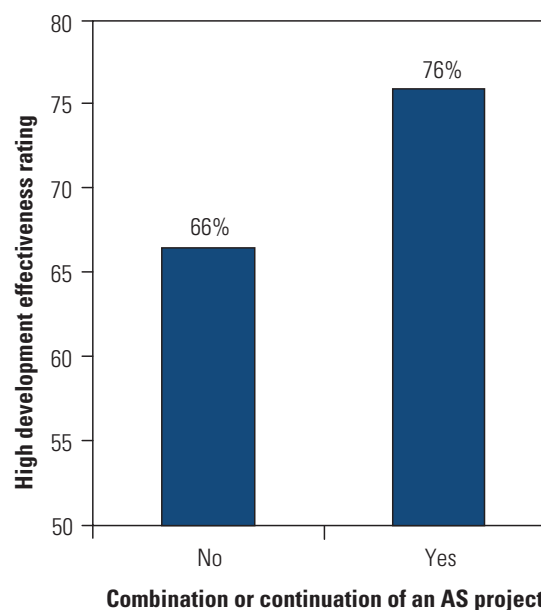
Figure 3.20. Better Advisory Services Ratings When Combined with IFC Loans Rather Than Equity



Source: IEG PCR Review data.

Note: Excludes projects where no development effectiveness rating was possible, and five cases where there were both equity and loan investments.

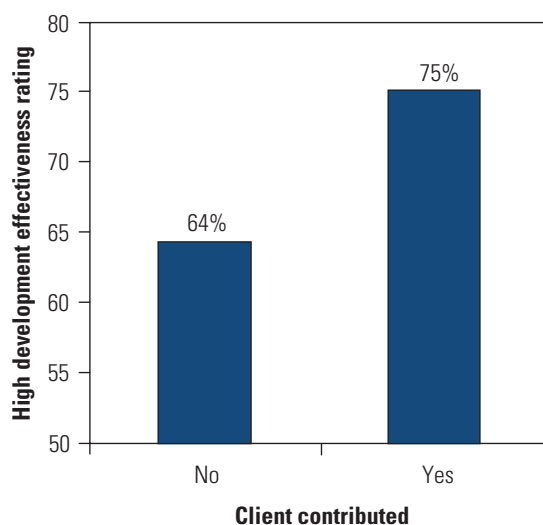
Figure 3.21. Stronger Performance in Repeat or Combined Advisory Services Operations



Source: IEG PCR Review data.

Note: Excludes projects where no development effectiveness rating was possible.

Figure 3.22. Client Commitment: Better Ratings When Client Contributed



Source: IEG PCR Review data.

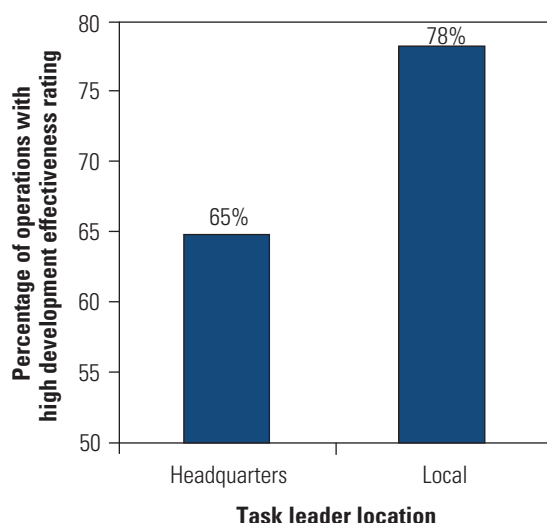
Note: Excludes projects where no development effectiveness rating was possible, and where contribution data were not available.

- (vi) Strong IFC role and contribution (figure 3.24), which was especially noticeable for BEE projects in high-risk IDA countries;⁵⁶ and
- (vii) High M&E quality, from approval to completion (figure 3.25).

These success factors are broadly consistent with feedback provided in IEG's survey of IFC staff. The top 10 success factors that IFC staff cited were: strong client commitment, fit with client needs, good project design, in-house expertise, deep understanding of the issue for which the advice is provided, local knowledge and presence, strong task leader commitment, tangible target outcomes, cooperation with the Bank and other partners, and strong project management.

As the M&E system evolves in the coming years, and more data become available, IEG will be seeking to confirm the statistical significance and relative influence of various drivers which might emerge. The associations presented in the fig-

Figure 3.23 Project Implementation: Local Presence Is Associated with Better Results



Source: IEG PCR Review data.

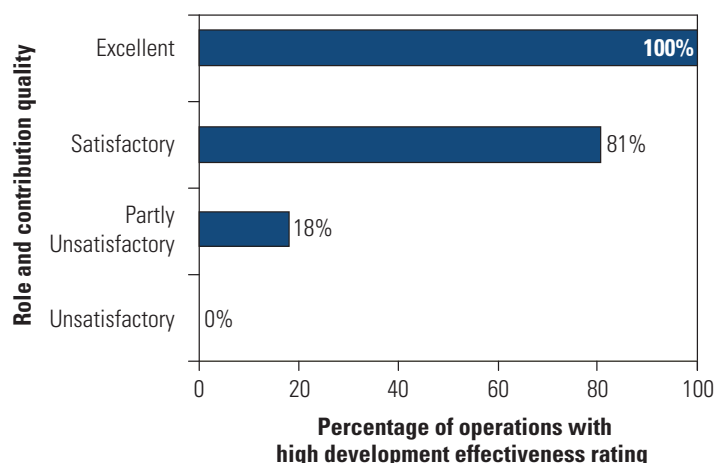
Note: Excludes projects where no development effectiveness rating was possible, and where task leader location was not available.

ures above are significant in binary terms,⁵⁷ but further analysis is needed as the quality of the database improves, to continue testing the robustness of these relationships.

IEG did not find significant associations between development effectiveness ratings and a number of other variables: IDA vs. non-IDA operations (although performance was better in those that exhibited high country risk), separating out operations with government clients (suggesting that capacity constraints were not a limiting factors), frontier vs. nonfrontier countries; conflict-affected vs. non-conflict-affected countries; the level of maturity of a product (i.e., whether it was entry, in development, developed, exit, or other); and project size.⁵⁸ Importantly, the review found no significant difference in the performance of AS projects started before or after the organizational changes that were initiated in 2005/06 (figure 3.26). By completion year, ratings were slightly lower for operations completed in 2007 and 2008 (figure 3.27).

If future data should hold up the above associations, there could be several general implications

Figure 3.24. Higher Role & Contribution, Better Ratings

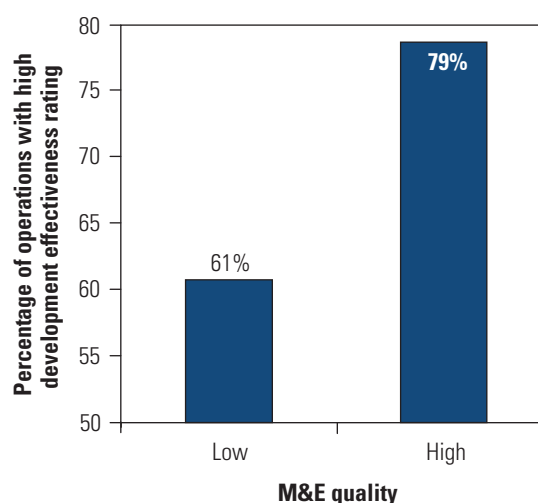


Source: IEG PCR Review data.

Note: Excludes projects where no development effectiveness rating was possible.

for IFC's future strategy and service delivery. First, it may be more effective for IFC to focus its AS on high-investment-risk countries (not just IDA), preparing the ground for private investment. Second, in the longer term, programmatic approaches have potential for greater impact, but equity/AS combinations, as currently formulated, seem to lack leverage (IFC can impose more

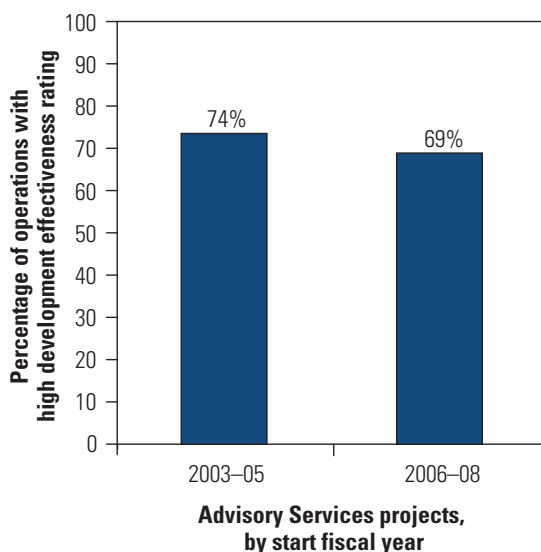
Figure 3.25. Better M&E Quality, Better Ratings



Source: IEG PCR Review data.

Note: Excludes projects where no development effectiveness rating was possible.

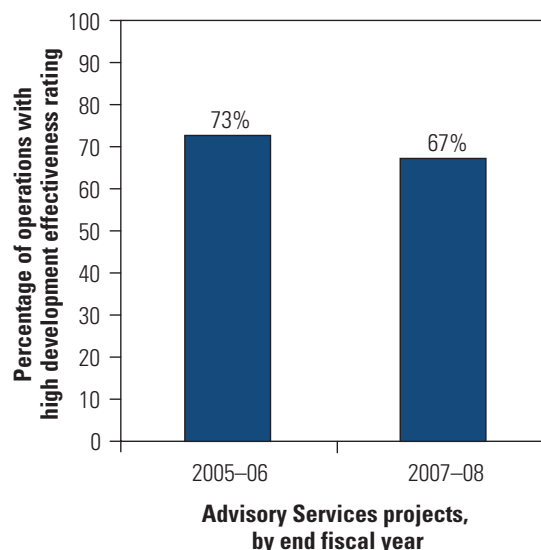
Figure 3.26. Similar Performance for Projects That Began between Periods 2003–05 and 2006–08



Source: IEG.

Note: Excludes projects that began prior to 2003.

Figure 3.27. Slightly Lower Performance for Recently Completed Operations



Source: IEG.

Note: Excludes projects completed prior to 2004.

conditions in the case of loans). Third, IFC additionality is paramount for development effectiveness. Fourth, effective pricing can enhance results. Fifth, strong project design, with local implementation, is fundamental. Sixth, M&E is not an afterthought; it matters in enhancing results prospects.

At the same time, where associations are absent, implications would seem to include: better definition of product maturity; there is no inherent trade-off in increasing operations in IDA countries and development effectiveness; recent organizational change has not adversely affected results in the short term, but does not appear to have improved them either. Further evaluation will determine whether the benefits of these changes take longer to accrue. In any event, IFC will need to carefully manage the tension between any further organizational changes and more business growth.

Are there any implications for IFC's crisis response? The 458 reviewed operations were im-

plemented by 2008 and were not affected by a major developing-country crisis. Also, IFC AS was much more limited in scope at the time of previous crises. However, we do have evidence from such episodes. In some prior crises, IFC AS was paired with investments. IFC's banking investments, for example, were often accompanied by extensive AS programs. Their goal was to help the banks implement a reengineering and corrective action program, upgrade their practices, systems, and technologies to international standards, and improve their internal audit functions and management information systems. One lesson learned in that experience was the importance of determining the true level of client commitment to improving corporate practices, although this may be difficult to assess in a crisis situation. In Russia, for example, an IFC AS program was implemented under the auspices of the Bank's Financial Sector Development Project. The program was expected to result in considerable transfer of technology and international best practices to a Russian-owned operation, aimed at in-

Box 3.5. Illustrations of IFC Additionality

Below are some illustrations of different kinds of IFC additionality:

Global knowledge/best practice: IFC shared its corporate governance expertise by advising on the formation of an Institute of Directors in a southern African country. In its first year, the institute attracted over 100 members, and is now operating on a sustainable basis. According to the client, IFC “provided examples illustrating how countries that adopted strong corporate governance laws and supported companies’ efforts to implement these reforms resulted in economic bene-

fits . . . Their evidence convinced skeptics that better companies lead to better societies.”

Combined services: IFC initially provided the client company with a study on how it could develop its operations in a new marketplace. IFC followed up this advice with a loan, an environmental and social assessment, as well as specific assistance for managing HIV/AIDS in the workplace. Since the initial intervention, the company has more than doubled the number of people it employs, has enhanced environmental and social practices, and is looking at the possibility of further expansion.

creasing its efficiency, improving service to clients, and helping to develop local managers and staff. The advisory services program was not successful, however, because the Russian bank lacked true commitment. It undertook the program more so to give IFC the assurances required to obtain loan financing from the Corporation.

We can also observe the level of performance of AS projects in IFC’s crisis priority areas relative to other areas. IFC has so far outlined three AS priorities in tackling the current crisis: i) in the financial sector, helping financial institutions assess and quantify critical risks, and taking action to mitigate crisis impact, while scaling up programs to strengthen financial infrastructure and disseminate good practice; ii) for the business enabling environment, expanding advice on regulatory simplification, including assistance on the Doing Business reform agenda, trade logistics, and business tax reform, insolvency, and investor aftercare; and iii) vis-à-vis corporate governance, improving the competence of the boards of directors of corporations in emerging markets through targeted training. When comparing the ratings of projects in these areas—where data are available—with projects in other areas, there is no statistical difference in performance between the two groups. This may suggest that IFC needs to do a better job delivering these products going forward.

IFC Additionality

Various evaluative sources (client interviews, client and donor surveys, and project evaluations) point to the following as possible IFC additionalities vis-à-vis most commercial knowledge service providers in developing countries: i) global knowledge/best practice awareness; ii) technical expertise in a certain business or product line (e.g., INF public-private partnerships, ESS, and corporate governance); iii) neutral broker/convener/advocate role; iv) combination of AS and IS; v) having an investment perspective; vi) ties to the Bank, in particular for macroeconomic policy capacity; and vii) IFC’s brand, or reputation. (Box 3.5 offers some illustration of IFC additionality.)

The global 2008 survey of IFC clients showed that the Corporation tends to face its greatest “competition” from other development institutions. The survey found that IFC would be the service provider that clients would turn to about half the time, when compared with other options, such as a domestic development institution/government program, international consulting firm, internal resources, private equity investor/commercial bank, a university, domestic consulting firm, or other (all less than 10 percent). This stresses the importance of IFC understanding the approaches and activities of other organizations, and its own relative strengths and weaknesses, so that IFC AS is

Box 3.6. How Is IFC Additionality Rated?

The PCR system captures IFC additionality with the *Role and Contribution* indicator, which considers to what extent IFC was additional or provided a special contribution to the project. As with development effectiveness ratings, IFC staff first provide their own self-assessment, which IEG verifies through desk and field validation. The rating criteria are as follows:

Excellent: IFC played an essential role and made major contributions to make the project particularly catalytic, innovative, or developmental.

Satisfactory: IFC's role and contribution was consistent with its operating principles, making contributions that may otherwise not have been readily delivered.

Partly unsatisfactory: IFC's role and contribution was not significant or fell short in one important area.

Unsatisfactory: IFC's role was not plausibly additional, and IFC's expected contribution was not delivered.

most complementary with that of other development institutions across different environments.

In most cases, other development institutions can offer similar additionalities, and in some cases, commercial knowledge service providers can too, such as best practice awareness and certain technical skills. Relative to other development institutions, IFC does appear to have an edge in terms of diagnostics. The IFC, along with other Bank Group members, has been a leader in developing quantitative indicators of the quality of the investment climate, and the ability of firms to access finance. These efforts have been appreciated by client countries and are used by other donors as well. At the same time, IFC does not appear to have a comparative advantage in macroeconomic policy (IBRD/IDA, IMF, and some of the regional development banks have greater analytical capacity and more appropriate instruments); some meso-level interventions, in particular, institutional development, for which the regional development banks may have a greater understanding of country context and better partnerships with clients; and longer-term capacity building, which many bilateral donors are better able to provide. Combining AS with lending operations is also an advantage shared with the EBRD and European Investment Bank (in Europe), and the IDB's Inter-American Investment Corporation (in Latin America and the Caribbean).

Since there is no market test of value, as there is with most investments (where the client can

choose a cheaper source of finance), how can we determine whether IFC delivered additionality in its AS? And with what impact? At the project level, IEG has found, ex post, IFC's role and contribution to be satisfactory in most cases—making contributions that may otherwise not have been delivered. IFC was judged to have played an essential role in only 14 percent of cases, and either played an insignificant role or was not plausibly additional in 17 percent of cases. Most of the time (69 percent of cases), IFC role and contribution were rated as satisfactory (see box 3.6 for rating criteria). Achieving the highest level of IFC additionality is crucial, not only in ensuring that IFC does not crowd out commercial providers but also in enhancing impact. As figure 3.24 showed, the effect on development effectiveness of excellent role and contribution, rather than satisfactory, and especially unsatisfactory role and contribution, is significant. By country type, additionality was rated higher for projects carried out in frontier countries, which probably goes some way toward explaining better project results in high-risk countries, but was not any stronger for “developed” products (e.g., business simplification; PPI advisory mandates), providing further evidence that product classifications might need to be revisited.

Evaluation highlights the value of IFC taking a programmatic approach to its AS interventions. In the Middle East and North Africa region, for example, IFC worked with a number of countries in developing their national corporate governance codes. IFC ran workshops, covering all aspects of

code preparation from content development and implementation to monitoring adoption, and also provided postworkshop advice to assist in drafting the codes. The program began with the intention of contributing to the drafting of three national codes. Ultimately, nine codes were drafted and passed in six countries, with another five in the process of being adopted. The program took on its own momentum, driven by a reputation for technical expertise and professionalism, as well as sensitivity to local needs and conditions. In another case, well-sequenced AS and investment activities helped develop the housing mortgage market in Russia.⁵⁹

Comparing IFC AS: Results of Others Delivering Knowledge Services

At present, there are no international good practice standards for the evaluation of PSD-related AS, and M&E systems are generally not as advanced as the one in IFC (notwithstanding the implementation issues discussed above). As a consequence, it is currently not possible to directly compare IFC's AS performance with that of other organizations. Given that IFC's M&E system is generally more advanced than that of other development institutions, at least in principle, IFC is well placed to lead efforts to improve and harmonize M&E standards—for instance, through further elaboration of the Common Performance Assessment System, established in 2005 by six MDBs (including IFC) to report performance on a range of key performance indicators. And this year, it is considering PSD AS indicators for the first time.⁶⁰ Meanwhile, IEG is working with other MDBs to develop good practice standards for PSD AS evaluation in the PSD Evaluation Cooperation Group.

While direct comparisons of performance are not yet possible, some common lessons do

emerge from independent evaluations that have been carried out of EBRD, ADB, the European Commission and IBRD/IDA AS activities. The findings are broadly consistent with IFC experiences discussed in this report: i) broader and more sustainable results are obtained from interventions at the macro and meso level rather than the micro level (firm-level support is low in outreach, which makes it difficult to achieve broader PSD impacts beyond the beneficiary firms); ii) interventions at all levels need to be targeted at local market deficiencies, identified by an assessment of the actual conditions in the field (some progress has been made in developing tools for assessing the business environment, but more needs to be done to develop methodologies for assessing the quality of institutions and the functioning of markets); iii) interventions to improve the business environment should be encouraged, as long as there is sufficient government commitment (support to intermediary organizations can be a way of influencing public policy for the private sector); iv) long- or short-term support within broader programs, leads to better and more sustainable outcomes; v) despite the fact that there is no one-size-fits-all approach to PSD interventions, it is important to adopt a methodical procedure for selecting areas of intervention in a country, including: a critical assessment of the priority areas of interventions, selecting an area in which the donor has a comparative advantage, and an assessment of whether the preconditions for intervening in a given area have been met; vi) client ownership, involvement of local actors, and building of institutions in recipient countries on the basis of the transfer of regulatory, facilitation, and intermediation competencies is a necessary condition for sustainability. (Further details about the findings of these evaluations is provided in appendix J).



Conclusions and Recommendations

Throughout the developing world, the private sector has been a key contributor to growth and poverty reduction in recent years. The current global financial and economic crisis places some of these hard-won gains under threat because of much tighter credit conditions, weaker capital inflows, and reduced developed-country import demand. It has also revealed certain market and nonmarket failures and imperfections.

In response to the crisis, development institutions can play important financial and nonfinancial roles. These include providing finance to viable enterprises where it is now lacking (sending positive signals to other investors), acting as an honest broker in financial restructurings, and offering advice that helps address institutional weaknesses, for instance, with regard to effective regulation and good governance. This report examined IFC's experiences in financing development (Part I) and providing knowledge for development (Part II), with a view to informing IFC's future strategic and operational directions, including its response to the current global crisis.

Conclusions

Financing Development

Concerning IFC's efforts to finance development, the review found that project development results (along with IFC financial returns) improved overall between 2006 and 2008. However, performance in Africa, Asia, and Middle East and North Africa, and in nontelecommunications IT, continued to lag. FI environmental and social ef-

fects ratings remained weak, reflecting continued client and IFC weaknesses. Bank Group impact in these regions will be vital in the coming years. Environmental and social impact will be critical in view of the mounting difficulties in these areas.

Stronger overall results reflected several factors: i) the exit of a particularly weak performing cohort of projects that matured in 2005 (51 percent of projects maturing in 2005 realized high development outcomes, compared with 75 percent maturing in 2008); ii) more favorable economic conditions in much of the developing world (until late 2008, by which time most evaluated projects had been substantially implemented); iii) improving IFC project appraisal and structuring quality; iv) the conscious move by IFC toward larger projects, which have been more likely to achieve higher ratings than smaller projects, due in part to greater internal scrutiny; and v) especially strong performance in Europe and Central Asia and in Latin America and the Caribbean, where the majority of mature operations are located. In these regions, business conditions were

most supportive and IFC work quality strongest. South Asia exhibited improving performance, with higher IFC work quality than in the past.

Performance lagged considerably in East Asia and the Pacific, Middle East and North Africa, and Sub-Saharan Africa—with barely half of projects in these regions meeting or exceeding specified benchmarks and standards. External conditions played some role—projects in Sub-Saharan Africa and Middle East and North Africa generally featured high levels of country, sponsor, and product competitiveness risks—but the quality of IFC's work and contribution to the project tended to have a larger impact. This was especially the case in EAP, where nearly 40 percent of projects exhibited low IFC additionality.

Among IFC's strategic sectors, project performance showed continued improvement in health and education, better performance in agribusiness, continued strong performance in infrastructure and financial markets, and lagged performance in nontelecommunications IT (software and Internet).¹ In other sectors, such as oil, gas, mining, and chemicals, projects achieved relatively poor ratings. Risk exposure was a clear factor in weak nontelecommunications IT projects, most of which were small operations involving inexperienced sponsors and unclear product competitiveness. However, work quality was also well below par—rated high in just 40 percent of cases. Strong IFC work quality was in evidence in the health sector, where the Corporation showed that it had learned lessons from past experience, although the portfolio had less diversity than envisaged. In oil, gas, mining, and chemicals, projects did not meet benchmarks for a number of reasons: technical weaknesses of the sponsor; higher than expected asset acquisition cost, and in one case, poor environmental compliance. Environmental and social effects ratings were stable for real-sector projects, but remained weak in FI operations, reflecting a need to focus on strengthening client capacity and securing commitment, while addressing shortfalls in IFC additionality.

Given the current global financial crisis (an extreme exogenous risk), projects in early implementation are expected to be hardest hit, in

development terms. Such projects represent about 40 percent of IFC's outstanding portfolio (62 percent by volume), thus downside risk to IFC's development "return" is substantial. Going forward, strong IFC work quality and additionality will be required (e.g., in making well-timed, catalytic, new investments; providing corporate finance; acting as an honest broker in restructurings; and helping to improve governance and regulation).

Knowledge for Development

IFC AS have been growing rapidly—so much so that AS teams now dominate IFC's presence on the ground. This rapid growth has happened in largely uncontrolled manner, and raises some important strategic questions. These include whether, in grafting a consulting business onto a bank, IFC has the right balance between AS and investment operations; possible quality trade-offs, given substantial organizational change and a high reliance on short-term consultants; and an increased possibility of COI and market distortion (where AS is offered together with financing, and is provided at less than market value). IFC has taken steps to improve the organizational alignment and delivery of its AS, but more needs to be done to improve internal focus and accountability, and to complement better the efforts of others.

AS delivery quality reflects client commitment, effective project design, and implementation (including getting the right global/local and in-house/consultant staffing mix), M&E, and collaboration with others. While IFC's approach to delivery compares well to that of other MDBs, there are also substantial gaps that need to be addressed—particularly in matching corporate intent with consistent implementation in the field. This also applies with respect to the execution of the pricing policy and provision of reliable M&E data, as well as ensuring good quality project design and implementation, and effective collaboration with other actors, including the Bank. Getting the right staffing mix has been a particular challenge, with a heavy reliance on relatively new staff and external, short-term consultants. Such dependence has considerable implications for the quality and continuity of IFC AS, and preservation of global knowledge leadership.

Available results data suggest better performance in Southern Europe and Central Asia, weaker performance in Latin America and the Caribbean (prior to a recent reorganization) and for global projects; and a strong association between country conditions (including the pursuit of AS activities in high-risk countries), delivery quality, and results. Additionality is fundamental for better performance, and may be enhanced by some—though not all—combinations with IFC investments (e.g., better ratings when combined with loans, and for second generation linkage projects in agribusiness and manufacturing). More benchmarking may be helpful. At all stages of delivery, M&E data provided by staff and consultants (in particular) has remained unreliable. Relatedly, IFC-commissioned reviews of AS facilities, products, and projects, while offering insights on the organization and delivery of AS, have exhibited shortcomings in independence and design.

Charging effectively for IFC's advisory services is perhaps the most important step going forward. Effectively charging clients for service will introduce a market test for AS, and is likely to have a positive impact on all aspects of the AS business: in creating incentives for greater client buy-in, stronger project design and implementation, stronger M&E, development of products that best meet demand, and ensuring IFC additionality. In the immediate term, IFC would need to strictly implement the current pricing policy, which is largely cost-based (i.e., the price the client is expected to pay is a proportion of the cost of the project, rather than its value per se). Over time, efforts should be made to move to a market value-based approach for pricing, to make sure that IFC does not run the risk of crowding out other knowledge providers. IFC investments are priced according to this principle for the same reason. The current economic crisis, and its likely effects on donor and IFC funding, is an opportunity for the Corporation to push harder in the direction of value-based pricing, and to encourage other development institutions to do likewise.

Recommendations

This review comes at a time of deep distress in financial markets and of severe downsizing in private economic activities. This reminds us of the

critical importance of sustained development of the private sector, for which regulatory frameworks are important and excessive deregulation costly. In these circumstances, this review provides further findings on what IFC might do to enhance development effectiveness and additionality:

Operations during the Crisis:

Effectively manage the tension between protecting the portfolio and responding to opportunities during crisis. In the past, this tension has not always been managed adequately and IFC has missed opportunities to have a deeper impact. Experience suggests the importance of arrangements to isolate portfolio problems from new business development, mitigating conflicts of interest that may impede effective collaboration with the Bank and the IMF, and of clear rules of engagement for crisis response, particularly for staff in the field. Experience also indicates the important role IFC and the Bank Group must play in promoting sound frameworks for prudent financial risk management and safeguards for sustainable private sector development. This is especially relevant today, as the world reexamines the roles of governments and markets in the wake of the financial crisis.

IFC Advisory Services:

Set out an overall strategy for IFC advisory services, addressing the need for a clear vision and business framework that is more closely linked with IFC's global corporate strategy. Following years of unchecked growth and recent organizational changes, the role of AS in IFC's business model needs to be addressed. The strategy would need to better articulate IFC comparative advantages, objectives, and goals for AS in different contexts (a source of confusion among staff), and to consider the best staffing combinations (with respect to internal or external, as well as global or local staff), delivery unit organization, incentives, and performance measures to help realize these objectives and goals.

Pursue more programmatic AS interventions. Evaluation shows that IFC achieved better results in AS projects that were carried out in conjunction with other AS interventions. One-

off activities have been less effective. However, programmatic efforts of this kind have been in the minority (about a fifth of all AS projects), and IFC should accordingly seek to expand this type of intervention.

Improve execution of the AS pricing policy through greater client contributions. Over the longer term, it would be important to seek client contributions that reflect value and impact (i.e., not just cost, to create a true test of client demand, incentives for better AS delivery, and to ensure IFC is being additional).

Strengthen AS performance measurement and internal knowledge management. In the short term, it would be important to have more hands-on M&E support in the field, after-

project-completion follow-up, better lessons-capture (including from dropped or terminated projects), and more arms-length facility, product, and project reviews. In the medium term, it would pay to introduce an Expanded Project Completion Report system (akin to the Expanded Project Supervision Report system for investment operations, and carried out later than the PCR to better capture impacts), more programmatic impact evaluation and impact research, setting results-based targets for AS in its corporate scorecard, and regular benchmarking of IFC AS activities and systems with other providers of knowledge services, including other MDBs and commercial providers. In the longer term, the aim could be to establish a specialized research unit focusing on generating and bringing together private sector development knowledge work.

APPENDIXES

APPENDIX A: PROJECT SAMPLE REPRESENTATIVENESS—
INVESTMENT OPERATIONS

Table A.1. Representativeness of the 2006–08 XPSR Sample (compared with 2001–03 net approvals population)										
	Number of Investments					Value of Investments (\$ million)				
	CY2006–08 XPSRs		CY2001–03 NAP		(c) = (a)/(b)	CY2006–08 XPSRs		CY2001–03 NAP		(c) = (a)/(b)
	No.	%	No.	%		Amt.	%	Amt.	%	
	178	100	349	100	51	3679	100	7340	100	50
Net IFC:										
Mean	–	–	–	–	–	21	–	21	–	–
Median	–	–	–	–	–	12	–	12	–	–
Investment size:										
X = <4.04	36	20	72	21	50	70	2	156	2	45
4.04 < X = < 38.02	114	64	220	63	52	1700	46	3399	46	50
X > 38.02	28	16	57	16	49	1909	52	3785	52	50
	178	100	349	100	51	3679	100	7340	100	50
Instruments:										
Equity only	42	24	83	24	51	568	15	982	13	58
Other	136	76	266	76	51	3111	85	6358	87	49
	178	100	349	100	51	3679	100	7340	100	50
Sectors:										
Financial markets	73	41	144	41	51	1760	48	3072	42	57
Nonfinancial markets	105	59	205	59	51	1919	52	4268	58	45
	178	100	349	100	51	3679	100	7340	100	50
Departments:										
Agribusiness	11	6	22	6	50	244	7	458	6	53
Global Financial Markets Group	60	34	119	34	50	1420	39	2438	33	58
Global Inform. & Comm. Tech.	15	8	30	9	50	236	6	687	9	34
Global Manufacturing & Services	48	27	94	27	51	830	23	1676	23	50
Health and Education	6	3	11	3	55	57	2	77	1	74
Infrastructure	18	10	35	10	51	409	11	1021	14	40
Oil, Gas, Mining, and Chemicals	9	5	18	5	50	194	5	429	6	45
Private Equity and Investment Funds	11	6	20	6	55	290	8	554	8	52
	178	100	349	100	51	3679	100	7340	100	50

(Table continues next page)

Table A.1. Representativeness of the 2006–08 XPSR Sample (continued)
(compared with 2001–03 net approvals population)

	Number of Investments					Value of Investments (\$ million)				
	CY2006–08 XPSRs		CY2001–03 NAP		(c) = (a)/(b)	CY2006–08 XPSRs		CY2001–03 NAP		(c) = (a)/(b)
	(a)		(b)			(a)		(b)		
	No.	%	No.	%	%	Amt.	%	Amt.	%	%
Regions:										
Africa	15	8	32	9	47	106	3	533	7	20
Asia	46	26	91	26	51	861	23	1895	26	45
Europe & Central Asia	54	30	99	28	55	1102	30	1764	24	62
Latin America and the Caribbean	48	27	97	28	49	1450	39	2753	38	53
Middle East and North Africa	12	7	23	7	52	126	3	275	4	46
World	3	2	7	2	43	35	1	121		
	178	100	349	100	51	3679	100	7340	100	50
Active/closed										
Active	104	58	199	57	52	2502	68	4400	60	57
Closed	74	42	150	43	49	1177	32	2940	40	40
	178	100	349	100	51	3679	100	7340	100	50
Indicative performance: (as of 06/30/2008)										
<i>(i) All investments:^a</i>										
With loss reserves	3	2	6	2	50	19	1	33	0	58
Without loss reserves	175	98	343	98	51	3660	99	7307	100	50
	178	100	349	100	51	3679	100	7340	100	50
<i>(ii) Equity only:^a</i>										
With loss reserves	0	0	0	0	—	0	0	0	0	—
Without loss reserves	42	100	83	100	51	568	100	982	100	58
	42	100	83	100	51	568	100	982	100	58
Countries (excluding regional):	58		74							

Source: IEG.

Note: XPSR = Expanded Project Supervision Report, CY = calendar year, NAP = net approvals population. Columns showing percentages may not add up to 100 due to rounding.

a. Amounts with loss reserves are the IFC approved investments that are affected by loss reserves (and not the actual amount reserved).

APPENDIX B: PROJECT EVALUATION METHODOLOGY— INVESTMENT OPERATIONS

IEG's project evaluation ratings are based on the Expanded Project Supervision Report (XPSR) system. Introduced in IFC in 1996, the XPSR process first involves a self-evaluation of the project by an IFC investment department, using corporate guidelines. The ratings assigned by investment departments are then independently verified (or re-rated) by IEG in terms of bottom-line outcome ratings and their respective subcomponents.

The **development outcome** rating is a bottom-line assessment, not an arithmetic average, of the project's results across four development dimensions, relative to what would have occurred without the project. It measures a project's business success, economic sustainability, environment and social effects, and private sector development impacts.

- **Project business success:** In financial market operations, project business performance measures the project's long-term impact on the financial intermediary's profitability and viability, using such indicators as capital adequacy, asset quality, management quality, earnings performance, and liquidity structure and balance sheet. In nonfinancial market operations, project business performance measures the project's actual and projected financial impact on the company's financiers, that is, lenders and equity investors. The principal indicator of a project's business performance is its real, after-tax, financial rate of return.
- **Economic sustainability:** In nonfinancial market operations, this indicator evaluates the project's effects on the local economy, and on the associated benefits and costs that are measured by economic rates of return. In addition to the project's effects, subprojects' effects are

included in the financial market operations' economic sustainability analysis.

- **Environmental and social effects:** IFC's Policy and Performance Standards on Social & Environmental Sustainability (2006) consider social and environmental sustainability to be an important component of development outcome quality in the IFC-financed projects. The XPSR's assessment of environmental and social effects should cover: (i) the project's environmental performance in meeting IFC's requirements; and (ii) the project's actual environmental impacts (through sub-projects in the case of financial market operations), including pollution loads, conservation of biodiversity, and natural resources. More broadly, it should also cover social, cultural, and community health aspects, as well as labor and working conditions and workers' health and safety.
- **Private sector development impacts** (beyond the project): IFC's *Purpose*, specified in Article I, is "encouraging the growth of productive private enterprises," and to that end, IFC shall "seek to stimulate, and to help create conditions conducive to the flow of private capital, domestic and foreign, into productive investment." This indicator addresses to what extent the company has developed into a corporate role model—positive or negative—and whether the project has contributed to IFC's purpose by spreading the growth benefits of productive private enterprise beyond the project company.

IFC's **investment outcome** rating is an assessment of the gross profit contribution quality of an IFC loan and/or equity investment, that is, without taking into account transaction costs or the cost of IFC equity capital.

- **Gross contribution-loan:** The primary indicator for this rating is whether the borrower is current on its payments to IFC (interest, fees, etc.). It is also important to assess the likely future debt-servicing capacity of the client.
- **Gross contribution-equity:** The nominal, equity, internal rate of return (also called return on equity or ROE). The rating criteria for equity investments are based on a comparison of the nominal, equity, internal rate of return with the actual (or notional) fixed-rate, loan interest rate (FR) that was (or would have been) approved for the same.

The assessment of **IFC work quality** involves a judgment about the overall quality of IFC's due diligence and value added at each stage of the operation. It measures the IFC's performance in screening, appraisal, structuring, supervision and administration, as well as its role and contribution.

- **Screening, appraisal, and structuring:** This measures the extent to which IFC professionally executed its front-end work toward a sustainable corporate performance standard. IFC's operating policies and procedures, as well as its credit notes provide guidance on what IFC considers an appropriate professional standard.
- **Supervision and administration:** Supervision, for this purpose, starts after commitment

of IFC's funding. This helps measure to what extent IFC has professionally executed its supervision. IFC's Operational Procedures provide guidance on what IFC considers an appropriate professional standard.

- **IFC's role & contribution:** This is measured by how well IFC fulfilled its role in terms of three basic operating principles: (i) Additionality/Special Contribution Principle—"IFC should participate in an investment only when it can make a special contribution not offered or brought to the deal by other investors"; (ii) Business Principle—"IFC will function like a business in partnership with the private sector and take the same commercial risks"; and (iii) Catalytic Principle—"IFC will seek above all to be a catalyst in facilitating private investors and markets in making good investments."

For each of the above principles, a four-point rating scale is used (excellent, satisfactory, partly unsatisfactory, and unsatisfactory), except for the synthesis development outcome rating, which involves a six-point scale (highly successful, successful, mostly successful, mostly unsuccessful, unsuccessful, and highly unsuccessful). In IEG's binary analysis, "high" refers to satisfactory or better on the four-point scale, and mostly successful or better on the six-point scale. Specific rating criteria for each indicator are set out in table B.1.

Table B.1. Project Performance Indicators and Rating Criteria for IFC Investment Operations

Rating	Excellent	Satisfactory	Partly satisfactory	Unsatisfactory
PROJECT DEVELOPMENT OUTCOME:				
Project business success	<p><i>Real sector:</i> FRR \geq WACC + 2.5%</p> <p><i>Financial market:</i> Project substantially raised the FI's profitability and substantially improved its viability (targeted funding); High overall profitability of the FI expected in the case of newly established FIs (general funding)</p>	<p><i>Real sector:</i> FRR \geq WACC</p> <p><i>Financial market:</i> Project had a neutral to positive effect on profitability and improved viability (targeted funding); adequate overall profitability expected (general funding)</p>	<p><i>Real sector:</i> FRR \geq WACC – 2%</p> <p><i>Financial market:</i> Project returns were sufficient to cover cost of associated debt, but did not provide adequate returns to equity holders or detracted from viability (targeted funding); Expected long-run returns to equity holders do not provide a risk premium over the cost of debt financing (general funding)</p>	<p><i>Real sector:</i> FRR $<$ WACC – 2%</p> <p><i>Financial market:</i> Project returns were insufficient to cover cost of associated debt or harmed viability (targeted funding); Expected long-run returns to equity holders less than cost of debt financing (general funding)</p>
Economic sustainability	<p><i>Real sector:</i> ERR \geq 20%</p> <p><i>Financial market:</i> Project substantially increased the efficiency of financial markets and/or the vast majority of subprojects are economically viable and the project has made a substantial and widespread contribution to improving living standards.</p>	<p><i>Real sector:</i> ERR \geq 10%</p> <p><i>Financial market:</i> Project positively influenced the efficiency of financial markets and/or most of the subprojects are economically viable as defined by: (a) subborrower portfolio quality is better than, or equal to, the higher of the rest of the FI's loan portfolio or the market average; (b) the aggregate equity fund portfolio return before management fees is satisfactory; or (c) more than half of equity fund investees have positive equity returns while aggregate portfolio return before management fees is less than satisfactory but no less than zero.</p>	<p><i>Real sector:</i> ERR \geq 5%</p> <p><i>Financial market:</i> Project made no positive contribution to the efficiency of financial markets and/or a large portion of the subprojects is not economically viable as defined by: (a) subborrower portfolio quality is worse than the higher of the rest of the FI's loan portfolio or the market average; or (b) more than half of equity fund investees have zero or negative equity returns, while aggregate portfolio return before management fees is less than satisfactory but no less than zero.</p>	<p><i>Real sector:</i> ERR $<$ 5%</p> <p><i>Financial market:</i> Project negatively affected living standards or the efficiency of financial markets and/or the majority of subprojects are not economically viable as defined by: (a) subborrower portfolio quality is worse than both the rest of the FI's loan portfolio and the market average; or (b) the aggregate equity fund portfolio return before management fees is negative.</p>
Environmental and social sustainability	<p><i>Real sector:</i> The project either: (i) maintained the company's excellent environmental management or materially improved the company's overall environmental performance (e.g., through training and addressing environmental, social, cultural, and community aspects, as well as labor and</p>	<p><i>Real sector:</i> The project is—and was over its lifetime—in material compliance with either IFC's current or at-approval requirements, including World Bank Group environmental, health and safety policies and guidelines.</p> <p><i>Financial market:</i> The project meets either IFC's at-approval requirements or</p>	<p><i>Real sector:</i> The project is not in material compliance with either IFC's current or at-approval requirements, but deficiencies are being addressed through ongoing and/or planned actions; or earlier noncompliance (meanwhile corrected) resulted in environmental damage.</p>	<p><i>Real sector:</i> The project is not in material compliance with either IFC's current or at-approval requirements, and mitigation prospects are uncertain or unlikely; or earlier noncompliance (meanwhile corrected) resulted in substantial and permanent environmental damage.</p>

(Table continues next page)

Table B.1. Project Performance Indicators and Rating Criteria for IFC Investment Operations (continued)

Rating	Excellent	Satisfactory	Partly satisfactory	Unsatisfactory
PROJECT DEVELOPMENT Outcome: (continued)				
Environmental and social sustainability (continued)	<p>working conditions, or introducing an Environmental Management System (EMS) or corporate program for environmental and social responsibility broader than IFC's requirements; or</p> <p>(ii) raised the environmental performance of local companies (e.g., by raising industry standards and serving as a good practice example for regulators). In addition, the project consistently met IFC's at-approval requirements and environmental effects are deemed acceptable in view of IFC's current requirements. IFC should be able to use projects rated excellent as role models for positive environmental effects.</p> <p><i>Financial market:</i> The project maintained the FI's excellent Environmental Management System (EMS) or materially improved the efficacy of the FI's overall environmental risk management (e.g., through training and introduction of a well-functioning EMS) and the environmental performance of portfolio companies. In addition, the FI has provided transparent and detailed reports on time, verifying that the project (and subprojects, as applicable) has consistently met IFC's requirements at approval and its environmental effects are deemed acceptable in view of IFC's current requirements. IFC should be able to use projects rated excellent as role models for positive environmental effects.</p>	<p>IFC's current requirements and its environmental effects are deemed acceptable overall. For all FI project types, trained staff implement an appropriate EMS that has been functioning over the project life (as reflected also in acceptable environmental standards being applied to projects financed by the FI). The subprojects are and have been in substantial material compliance with IFC's requirements for the life of the project.</p>	<p><i>Financial market:</i> The project does not meet IFC's requirements, but the shortfalls are either being corrected or negative impacts are moderate. For example: the FI's EMS is adequate, but some subprojects have resulted in environmental damage; or the subprojects visited have acceptable environmental standards, but the EMS is materially inadequate; or an FI (type 1) initially had no EMS, but has recently introduced a functioning EMS.</p>	<p><i>Financial market:</i> The project does not meet IFC's requirements and substantial negative effects are known or likely, (e.g., the FI's EMS is completely inadequate and nothing is known about subproject performance); the EMS has material shortcomings and some subprojects have negative environmental effects; while the EMS appears adequate, a significant portion of subprojects have negative environmental effects; some subprojects have resulted in substantial and irreversible environmental damage.</p>

Table B.1. Project Performance Indicators and Rating Criteria for IFC Investment Operations (continued)

Rating	Excellent	Satisfactory	Partly satisfactory	Unsatisfactory
PROJECT DEVELOPMENT OUTCOME: (continued)				
Private sector development impacts (beyond project)	All sectors: Considering its size, the project improved the enabling environment or otherwise made a substantial contribution to the growth of private enterprises or efficient financial markets.	All sectors: The project had some, but no major positive impacts.	All sectors: The project had mostly negative impacts, which, however, are not expected to be of long duration or broad applicability (e.g., a failed project without substantial negative demonstration effects).	All sectors: Substantial negative impacts of broad applicability and/or expected to be of long duration.
IFC INVESTMENT OUTCOME:				
Loan	Fully performing and, through a sweetener (e.g., income participation), it is expected to earn significantly more than a loan priced "without sweetener" would have earned if paid as scheduled. There is no indication that debt service payments will not remain current in future.	(i) loan expected to be paid as scheduled; or (ii) loan is prepaid in full; or (iii) loan has been rescheduled and is expected to be paid as rescheduled with no loss of originally expected income. In the case of an IFC guarantee, all fees are expected to be received, and guarantee not called (or called but expected to be fully repaid in accordance with the terms of the guarantee agreement). In the case of an IFC swap or other risk-management facility, IFC has not suffered any loss and expects no loss due to nonperformance of the swap counterparty. There is no indication that debt service payments to IFC will not remain current in future.	Loan has been rescheduled, or guarantee is called and in either case IFC expects to receive sufficient interest income to recover all of its funding cost but less than the full dollar margin originally expected. If all payments to IFC are current, but there is doubt whether payments can remain current in future, then a partly unsatisfactory rating may be preferable. For example, IFC may establish "flag" loss reserves of modest size (no more than 10%) for reasons such as country conditions, which are not related specifically to IFC's project. In these cases, a partly unsatisfactory rating may be used rather than unsatisfactory.	(i) loan is in nonaccrual status; or (ii) IFC has established specific loss reserves; or (iii) loan has been rescheduled but IFC does not expect to recover at least 100% of its loan funding cost; or (iv) loan has been or is expected to be wholly or partially converted to equity in restructuring of a "problem" project; or (v) IFC experiences a loss on its guarantee or risk-management facility.
Equity	Benchmarks vary, depending on the nature of the equity investment.			

(Table continues next page)

Table B.1. Project Performance Indicators and Rating Criteria for IFC Investment Operations (continued)

Rating	Excellent	Satisfactory	Partly satisfactory	Unsatisfactory
IFC Work Quality: Structuring, appraisal, and screening	IFC's front-end work could serve as a best-practice example.	Materially met IFC's good practice standards.	Material shortfall in at least one important area.	Material shortfalls in several areas or a glaring mistake or omission bordering on negligence in at least one important area.
Supervision and administration	IFC has always kept itself promptly and fully informed about the project's and FI's performance in all material areas and used this knowledge proactively to improve the project's development outcome and/or IFC's investment outcome.	IFC has kept itself sufficiently informed to react in a timely manner to any material change in the project's and FI's performance and took timely action where needed.	IFC's supervision was insufficient to monitor the project's and FI's performance and/or IFC did not take timely and appropriate action.	IFC missed material developments, and/or did not use information to intervene in a timely and appropriate manner.
Role and contribution	IFC's role was essential for the project to go ahead and IFC made a major contribution to make it a success.	IFC's role and contribution were in line with its operating principles (of being catalytic and making a special contribution).	IFC's role or contribution fell short in a material area.	IFC's role was not plausibly additional and IFC did not deliver its expected contribution.

Source: IEG.

Note: ERR = economic rate of return, FRR = financial rate of return, WACC = weighted average cost of capital.

APPENDIX C: FURTHER DETAILS ON RESULTS CHARACTERISTICS—
INVESTMENT OPERATIONS

Table C.1. Characteristics of Project Ratings, by Subindicators, 2006–08

**Project development
outcome ratings,
2006–08**

	LOW OUTCOMES			HIGH OUTCOMES		
	Highly unsuccessful	Unsuccessful	Mostly unsuccessful	Mostly successful	Successful	Highly successful
DEVELOPMENT OUTCOME	6%	12%	10%	22%	38%	12%
	28%			72%		
<i>(by commitment volume)</i>	2%	5%	9%	26%	43%	16%
	15%			85%		
	Unsatisfactory	Partly unsatisfactory		Satisfactory	Excellent	
Project business success	20%	13%		33%	35%	
	33%			67%		
Economic sustainability	13%	9%		43%	34%	
	23%			77%		
Environmental effects	10%	27%		56%	8%	
	37%			63%		
Private sector development	5%	16%		51%	28%	
	21%			79%		

**IFC investment return
ratings, 2006–08**

	Unsatisfactory	Partly unsatisfactory	Satisfactory	Excellent
IFC INVESTMENT OUTCOME	16%	6%	57%	21%
	22%		78%	
<i>(by commitment volume)</i>	6%	4%	59%	31%
	10%		90%	
Loan	4%	4%	83%	9%
	8%		92%	
Equity	35%	7%	17%	41%
	42%		58%	

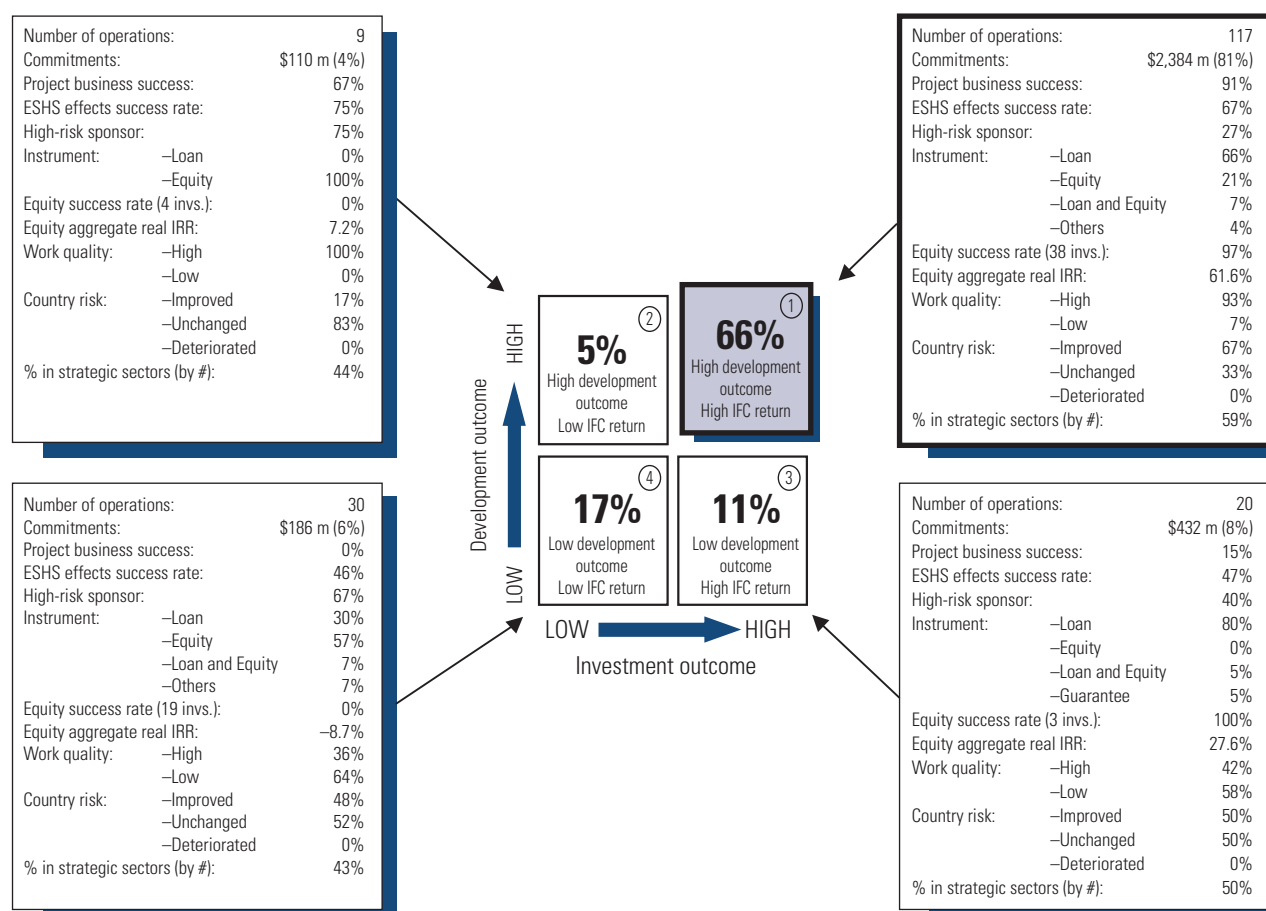
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Table C.1. Characteristics of Project Ratings, by Subindicators, 2006–08 (continued)

	Unsatisfactory	Partly unsatisfactory	Satisfactory	Excellent
IFC'S OVERALL WORK QUALITY	2%	19%	65%	15%
	21%		79%	
<i>(by commitment volume)</i>	2%	14%	66%	18%
	15%		85%	
Screening, appraisal, structuring	4%	22%	61%	13%
	26%		74%	
Supervision and administration	1%	13%	70%	16%
	14%		86%	
Role and contribution	2%	15%	53%	30%
	17%		83%	

Source: IEG.

Notes: IEG uses a binary interpretation of these evaluation results, which describes operations' ratings as either "high" or "low." By volume, figures are the percentages of the total committed IFC investment amounts in each outcome-rating group. The rates above indicate the percentages of all assigned ratings.

Figure C.1. Combined Project Development Outcome and IFC Investment Return Characteristics, 2006–08

Source: IEG.

APPENDIX D: RISK-ADJUSTED EXPECTED DEVELOPMENT OUTCOME REGRESSION: MODEL SPECIFICATION, ANALYSIS, AND PRELIMINARY RESULTS

Years of evaluation and econometric testing show that project development results hinge significantly on two types of factors: those external to IFC—notably, country risk, sponsor risk, and product market risk; and those internal to IFC—the quality of IFC’s work in project appraisal and structuring, project supervision, and additionality. It is important to note, however, that the so-called external factors also come within IFC’s decision-making purview and that there can be interactions between external and internal factors. Distinguishing between the two and, in general assessing the sensitivity of development outcomes to various factors, nevertheless can potentially help in measuring, understanding, and rewarding performance. In general, risks can be offset by strong work quality, although project development outcomes still tend to be lower when the risk is higher.

With this understanding, IEG developed an initial model to provide views on project performance that better consider country, sector, and product risk context, and thereby enhance understanding about the quality of IFC’s efforts in meeting different development challenges. The conceptual framework views development outcome of a project as a function of two sets of factors: external and internal to IFC (again noting possible interactions among them).

$$\text{development outcome}_i = f(\text{external factors}_i, \text{IFC-controllable factors}_i) + \varepsilon_i$$

The model includes the following external factors:

- (i) *Changes in country business climate*—changes in the Institutional Investor Coun-

try Credit Risk score between approval and evaluation. A higher value indicates a larger improvement in the business environment. An improving business environment creates more and distributes better investment and growth opportunities, rewards entrepreneurial efforts, facilitates business growth, and therefore is expected to translate into more jobs, higher community impacts, and greater tax revenues. Trends in the business environment appear to be more important than starting levels.

- (ii) *Sponsor/partner quality*—the variable captures the sponsor’s experience, financial capacity, commitment to the project, and governance/business reputation. If the sponsor is rated low in these dimensions, sponsor quality is deemed to be low. This factor is rated on a binary scale, with 1 as high risk/low quality and 0 as low risk/high quality, based largely on assessment of project documentation and, where available, public information and field visits/interviews. IFC is delivering development impact through partners, typically private enterprises, and therefore their capacity, integrity, and commitment are an important factor of development impact. However, IFC’s additionality may be higher when sponsor’s quality is not very high, in which case IFC’s additionality may mitigate the risks arising from low sponsor quality. The variable is measured as of time of approval.

- (iii) *Market risks*—captures the project’s underlying competitiveness in the market in which it is operating, and any market distortions, such as high tariff protection, degree of presence of state-owned enterprises in the sector, artificial monopoly positions, and other

distortions that typically result in low competitiveness. Rated on a binary scale with 1 as high risk/low competitiveness and 0 as otherwise. Clearly demonstrated market competitiveness improves a venture's ability to meet business adversity and survive in its early years to reach its development potential. Economic Rates of Return and development impact in general tend to be lower in distorted market environments. Distortions drive a wedge between market and economic prices, and financial and economic returns of a project, resulting in a divergence between private and social returns. Distortions are normally unsustainable over the long term, creating also financial risks if a particular enterprise benefits financially from market distortions. The variable is measured as of time of approval.

- (iv) *Project type*—Rated on a binary scale with 1 for a greenfield project and 0 otherwise. Greenfield projects involve new plant construction and new operations and thus pose higher risks compared to expansions of existing plants and operations. They pose “the greatest challenge to structuring and risk sharing.”¹

The model excludes some possible factors, such as whether the client is a new client or a repeat client, IFC sector experience, and project size,

that are in some way highly correlated with factors and are already included in the model.

The set of IFC-controllable factors considered in the model are as follows:

- (v) *Screening, appraisal, and structuring quality*—rated on a binary scale with 1 as satisfactory or better, and 0 as less than satisfactory.
- (vi) *Supervision and administration quality*—rated on a binary scale with 1 as satisfactory or better, and 0 as less than satisfactory.
- (vii) *IFC additionality*—proxied by IFC's role and contribution, rated on a binary scale with 1 as satisfactory and 0 as less than satisfactory.

Table D.1 presents summary statistics.

The external variables in the model are consistent with consideration of risk in both the financial and development worlds. Financial theorists and practitioners distinguish between the following main types of risks: i) Country risk: the risk of loss on cross-border exposure due to government actions; ii) Credit risk: the risk of loss due to borrower's default; iii) Business risks: uncertainties in the revenues and expenses of a business associated with general industry trends, technological or regulatory changes; iv) Market risks:

Table D.1. Summary Statistics for Key Variables: 2000–05 vs. 2006–08

	Average for 2000–2005	Average for 2006–2008	Direction and magnitude of change
Development outcome success (%)	0.57	0.72	Significant improvement
Changes in country business climate	3.13	13.60	Significant improvement
Sponsor risk	0.40	0.37	No significant change
Market competitiveness	0.68	0.60	Improvement
Project type	0.41	0.42	No change
Screening, appraisal, & structuring work quality	0.51	0.74	Significant improvement
Supervision & administration work quality	0.69	0.86	Significant improvement
IFC role and contribution	0.79	0.82	No significant change
Number of observations	361	173	

Source: IEG.

risk of possible losses arising from changes in the market due to fluctuating or changing interest rates, foreign exchange rates, share prices and prices in general. In the development field, risks to development outcome are commonly considered in World Bank approval and evaluation documents. The risks most often identified in Bank project documents are similar to the risk factors included in the model: unfavorable changes in policies, or law and order situation; technical capacity and commitment of government partners and/or the implementing agency.

Regression results are presented in table D.2. All the coefficients have the expected signs and are significant at the 5 percent or 10 percent level. It is clear from the results that factors controllable by IFC tend to dominate the external factors both in terms of statistical significance and statistical impact.

We next use the results in table D.2 to estimate the impacts of risk and IFC-controllable factors on development outcomes by regional and industry departments. Our point of departure is the realization that in an ideal situation of no risks and high work quality, the expected development success rate should be 100 percent.² We then simulate the probability of success by regional and industry departments with actual risk parameters and perfect work quality. This estimate of development outcome success rates we call “potential development outcomes” because it indicates what could be achieved with high work quality, given the actual risk profile of projects undertaken by the respective departments, i.e., potential development outcome = f (actual risks, perfect work quality). The difference between the risk-free 100 percent rating and the potential development outcome can therefore be attributed to the effect of the degree of risks taken.

From the basic regression in table D.2, we obtain predicted development outcome success rates by regional and industry departments, i.e., predicted development outcome = f (actual risks, actual work quality). The difference between potential development outcome and predicted development outcome would then be due to gaps in work quality. Finally, the residuals, i.e., the dif-

Table D.2. Determinants of Development Outcome—Probit Regression Summary, 2000–08

	df/dx	p > z
Changes in country business climate	0.006**	0.011
Sponsor risk	−0.09*	0.10
Market risks	−0.14**	0.012
Project type	−0.10*	0.07
Screening, appraisal, & structuring work quality	0.38**	0.000
Supervision & administration work quality	0.35**	0.000
IFC role and contribution	0.55**	0.000
Number of observations	517	
Pseudo R ²	0.444	

Source: IEG.

Note: Coefficients displayed represent marginal changes in probability of successful development outcome due to unit change in explanatory variable, which for a discrete change of dummy variable is from 0 to 1; p-values are in the second column;

* significant at 10%; ** significant at 5%.

ferences between predicted and actual development outcome success rates are due to unexplained factors.

The results are presented in table D.3 below. As we can see, risks factors had the largest impact on performance in Sub-Saharan Africa and in Middle East and North Africa, 12 percent and 11 percent, respectively, almost twice as large an impact as in other regions. The impact of risk factors is less variable by industries than by regions. Communications & Information Technologies and Global Financial Markets tend to have higher risk profiles as reflected in slightly higher development loss due to risks taken.

For all departments, except Private Equity & Investment Funds and Health & Education, IFC-controllable factors tend to dominate external risk factors in terms of impact on development outcomes. The impact is particularly pronounced in the case of East Asia and the Pacific and Communications & Information Technologies. It appears that Health & Education and Private Equity & Investment Funds have achieved high levels of work quality. It is evident, however, that there is room for improvement in all regions and sectors. In addition, in Africa and Middle East and North Africa, even if we account for risk, the potential

Table D.3. IFC's Project Development Outcomes and Factor Attribution

	Development outcome			Difference between actual and max = 100%		
	Potential ^a	Predicted ^b	Actual	Due to risk	Due to work quality	Unexplained
IFC, 2006	92%	65%	66%	-8%	-27%	1%
IFC, 2007	94%	73%	72%	-6%	-21%	-1%
IFC, 2008	93%	68%	75%	-7%	-25%	7%
IFC, 2006–08	93%	69%	72%	-7%	-24%	3%
Sub-Saharan Africa (15)	88%	60%	47%	-12%	-28%	-13%
East Asia and Pacific (29)	93%	57%	54%	-7%	-36%	-3%
South Asia (16)	92%	77%	75%	-8%	-15%	-2%
Central and Eastern Europe (24)	95%	82%	84%	-5%	-13%	3%
Southern Europe and Central Asia (26)	94%	87%	83%	-6%	-7%	-4%
Latin America and the Caribbean (48)	95%	82%	83%	-6%	-13%	1%
Middle East and North Africa (12)	89%	68%	50%	-11%	-21%	-18%
Oil, Gas, Mining, and Chemicals (9)	93%	69%	56%	-7%	-24%	-13%
Communication and Information Technology (15)	92%	61%	47%	-8%	-31%	-14%
Infrastructure (18)	96%	88%	94%	-5%	-8%	6%
Global Manufacturing Services (47)	93%	75%	63%	-7%	-18%	-12%
Global Financial Markets (57)	92%	71%	77%	-8%	-21%	6%
Food and Agribusiness (10)	96%	79%	78%	-4%	-17%	-1%
Private Equity and Investment Funds (11)	94%	91%	73%	-6%	-3%	-18%
Health and Education (6)	93%	93%	100%	-7%	0%	7%

Source: IEG.

Note: Numbers in parentheses indicate number of projects.

a. Potential is Risk-Adjusted Expected Development Outcome (RAEDO), assuming perfect work quality.

b. Predicted is RAEDO with actual risk profile and actual work quality.

for success is higher but the potential is not achieved largely because of shortcomings in work quality.

While the risk-adjusted results provide a different perspective on results, it is still a work in progress, and further data and model refinements will be required to test and improve its reliability. Also, as with all models, it has certain limitations. For example, most of the variables, and the model's structural parameters, reflect IFC's experience. Therefore, comparisons of performance are valid only within IFC, across regions and industries, and across time for IFC as a whole. Small sample sizes for some of the departments affect the reliability of the estimates. Endogeneity, a perennial

problem in the econometric analysis of investment decision-making, is also potentially an issue, as mentioned earlier. Thus continuous refinement of the model is needed going forward.

It is worth noting that the current M&E system is designed to measure the level of effectiveness of the institution at the project and aggregate levels, but does not offer a single measure of the *comparative magnitude* of development impacts across projects. Therefore, since the RAEDO approach is also based on projects' development success rates, it still cannot capture the differences that may exist with respect to these magnitudes. This is an interesting but complex area for future work, which IEG intends to pursue.

APPENDIX E: CHRONOLOGY OF IFC ADVISORY SERVICES

Table E.1. Chronology of IFC AS

Year	Event
Facilities and Initiatives	
1981	Business Advisory Service (BAS) for the Caribbean and Central America established (closed FY97).
1985	South Pacific Project Facility (SPPF) established to assist and accelerate the development of productive, self-sustaining SMEs in Pacific Island countries. Foreign Investment Advisory Services (FIAS) created.
1986	Africa Region-Africa Project Development Facility (APDF) established.
1988	Technical Assistance Trust Funds (TATF) program instituted—to develop technical assistance (TA) projects to help strengthen the business environment in all IFC client countries, focusing on TAs to promote private sector growth.
1989	Africa Management Services Company (AMSCO) established to assist those SMEs that have substantial African ownership to become more sustainable and competitive in national and international markets.
1990	Pacific Enterprise Development Facility (PEDF) established to assist in and accelerate the development of productive, self-sustaining SMEs in Pacific Island countries (renamed PEP-Pacific in FY07).
1991	Polish Business Advisory Service (PBAS) established (closed FY96).
1994	Enterprise Support Service for Africa (ESSA) established (closed 2002, made part of APDF).
1997	Mekong Project development Facility (MPDF) launched to foster growth in the number and size of domestic private firms in the Mekong Region.
2000	China Project Development Facility (CPDF) to support the development of private SME s in the interior of China, with an initial focus on Sichuan province (renamed PEP-China FY07). Private Enterprise Partnership for Eastern Europe and Central Asia (PEP-ECA) to provide focused TA, with the goal of helping build successful private businesses in the former Soviet Union region (operating since 1987). Southeast Europe Enterprise Development (SEED) launched.
2001	Developing Enterprises in South Asia (DESA) created.
2002	Corporate Citizenship Facility (CCF) to demonstrate the business case for progressive approaches to corporate citizenship and to leverage the potential of IFC investments to act as a catalyst for improved environmental and social performance. Environmental Opportunities Facility (EOF) to provide catalytic project development funding and flexible investment financing for innovative projects that primarily address local environmental issues.

(Table continues next page)

Table E.1. Chronology of IFC AS (continued)

Year	Event
2002	<p>South Asia Enterprise Development Facility (SEDF) established to increase the number and growth rates of SMEs in Bangladesh, Bhutan, Nepal, and northeast India.</p> <p>Capacity Building Facility (CBF) initiated to fund partnerships and programs that support the four core pillars of the Bank Group SME strategy.</p> <p>SME initiatives—To support various initiatives such as: (i) addressing broader SME development issues (access to financing, business enabling environment, local economic development, and capacity building); (ii) funding pilot and partnerships projects; and, (iii) building local capacity for SME lending in target markets.</p> <p>North Africa Enterprise Development Facility (NAED) established to support the development of markets and institutions that are key to SME growth in (initially) Algeria, Egypt, and Morocco.</p> <p>Sustainable Financial Markets Facility (SFMF) established to enhance the environmental and social impact of financial intermediaries (FIs) operating in developing countries, and to strengthen FIs' competitiveness by improving their capacity to manage environmental risk and the opportunities arising from increased sustainability; and to have a strategic impact on the sustainability agenda of the broader financial community.</p> <p>Indonesia Enterprise Development Facility (IEDF).</p>
2003	<p>Program for Eastern Indonesia SME Assistance (PENSA) initiated to support the increased flow of capital to SMEs by strengthening SME banks, creating new SME financial products, and identifying and preparing projects for follow-on IFC investment; to support linkage programs related to IFC investments and to work with IBRD on improvements in the business enabling environment.</p> <p>Latin America and Caribbean Small and Medium Enterprise Facility (LAC SME Facility) established to promote private sector development through SMEs in selected countries in Latin America (e.g., target countries of Bolivia, Honduras, Nicaragua, and Peru) with the aim of fostering job creation and reducing poverty in the host countries.</p> <p>Iraq Small Business Financing Facility (ISBFF) established.</p>
2004	<p>DevCo established to put in place sustainable contractual agreements in which infrastructure services are privately provided, with an emphasis on the provision of services to those that currently do not enjoy access.</p> <p>PEP-MENA assumed the activities of PEP-ME and NAED facilities and established to provide TA to support private sector development in all countries in the MENA region.</p>
2005	<p>BIDF established to assist the public sector in Southeast Europe to increase private participation and investment in infrastructures that contribute to economic development (renamed PEP-SEI in FY07).</p> <p>Formerly known as SGBI transformed into Grassroots Business initiative (GBI). Established to strengthen and expand support for Grassroots Business Organizations by the World Bank Group and others.</p> <p>SLDF established to expand SEDF's South Asia SME Development Program from Bangladesh to Sri Lanka and Maldives.</p> <p>Global Corporate Governance Forum (GCGF) established to promote global, regional, and local initiatives to improve the institutional framework and practices of corporate governance in developing countries.</p> <p>PEP-SE initiated to develop targeted and innovative projects to support private sector development. 2006 (a successor program to SEED).</p> <p>Mozambique SME initiative (MSI) established to finance SMEs on a commercial basis and provide TA to investee companies and outside service providers in Mozambique.</p> <p>PEP-Africa established to enhance support to SMEs, support IFC direct investment through project development, and engage in improving the investment climate (a successor program to APDF).</p>
2006	<p>PEP-Philippines established to improve the business environment for SMEs to contribute to a broader-based economic growth and to sustainable poverty reduction in the Philippines.</p>

Table E.1. Chronology of IFC AS (continued)

Year	Event
2006	EICDF established to find technical assistance that will benefit local communities with the focus on Africa. PEP-ACEH established to provide technical assistance focused on private sector development in Aceh/Nias region in Indonesia. PEP-SADI established to assist activities in agribusiness supply chain linkages, rural financing, and infrastructure in Indonesia.
2007	BICF Bangladesh Investment Facility CES facility (SBI, SBAP, GEF, PPSPF CES GEF)
Operational/System Changes	
2003	IDA-IFC MSME pilot program launched in 2003.
2005	Development and implementation of a standardized Advisory Services (AS) approval process. Project Supervision Review (PSR) process introduced.
2006	AS principles developed. AS operations organized around five business lines and business line leaders appointed.
2007	Pricing policy introduced for AS products. Guidelines for Bank Group coordination created; joint Bank Group review of AS. First core product review.
2008	AS guidelines created. Second core product review and target of 80% "core" products (developed and in development). First donor survey. Regional AS portfolio review meetings introduced. AS legal agreements database launched.
2009	IFC conflict-of-interest guidelines introduced (previously COI was governed by overall Bank Group COI guidelines).
Performance and M&E	
2005	AS training programs launched.
2006	New project M&E system introduced. Results measurement group for AS formed. PCR system introduced. Smart Lessons introduced for sharing of experiences (database launched 2007).
2007	Standardized performance indicators introduced. Project Completion Report (PCR) incorporated into iDESK. First IFC AS client survey launched.

(Table continues next page)

Table E.1. Chronology of IFC AS (continued)

Year	Event
Organizational Changes	
2000	The Global Financial Markets Group, which encompasses the financial markets activities of the seven regional departments and the Financial Markets Advisory Department, was created.
2003	The reporting lines for the various Project Development Facilities were changed, placing them under the responsibility of the IFC regional directors in order to strengthen the facilities' integration with regional strategy, products, and services.
2004	Establishment of a funding mechanism for advisory services to consolidate the different sources of funding alternatives available within IFC.
2005	AS Corporate Cadre created. Advisory Services Portfolio Management Unit established.
2006	Joint World Bank/IFC Financial and Private Sector Development Vice Presidential Unit.
2008	Vice Presidency for advisory services established. Advisory Services Corporate Cadre expanded. Access to Finance moves to Business Advisory Services Vice Presidency. Regional sector leaders/BLLs appointed.

Source: IEG.

APPENDIX F: ADVISORY SERVICES FACILITIES, BY REGION

Table F.1. FY08 Advisory Services Facilities, by Region

Region	Facilities ^a (funding side)	Approximate share of FY08 AS expenditures		Delivery units (most common)	Business lines addressed
AFRICA	PEP Africa Mozambique SME Initiative, SME Solution Center	19%		PEP-Africa CAS CIC CES	PEP Africa addresses all business lines. However, most of the ESS, Infrastructure and BEE initiatives projects are addressed by headquarters.
		Regional: \$26.5m.	Global: \$19.5m.		
EAST ASIA & PACIFIC	PEP-China MPDF PEP-Pacific PEP-Philippines PENSA	15%		CEA CES CAS CIC	
		Regional: \$28.4m.	Global: \$7.8m.		
CENTRAL AND EASTERN EUROPE	PEP	8%		PEP CES CIC CGM	Financial Markets, Corporate Governance, Linkages, SME Policy, Agribusiness. <i>Energy Efficiency at design stage.</i>
		Regional: \$22m	Global:		
LATIN AMERICA & CARIBBEAN	LACP ^b	8%		LACP CES CAS CIC CGB CGF	Until 2007, LAC facility mainly addressed three business lines: ESS, BEE, and Corporate Advice. Recently, Infrastructure and A2F business lines are added to the coverage of the facility.
		Regional: \$14.1m.	Global: \$5m.		
MIDDLE EAST & NORTH AFRICA	PEP-MENA ISBFF (Iraq facility)	9%		PEP MENA CAS (Dubai + headquarters)	PEP-MENA addresses BEE, financial markets, SME development and infrastructure pillar
		Regional: \$19.2m.	Global: \$3.3m.		

(Table continues next page)

Table F.1. FY08 Advisory Services Facilities, by Region (continued)

Region	Facilities ^a (funding side)	Approximate share of FY08 AS expenditures		Delivery units (most common)	Business lines addressed
SOUTH ASIA	SEDF-South Asia SME Development Program, SEDF-Sri Lanka and Maldives (SLDF); BICF: Bangladesh Investment Climate Facility	7%		SEDF SLDF BICF CES	
		Regional: \$15.5m.	Global: \$2.8m.		
SOUTHERN EUROPE AND CENTRAL ASIA	PEP-SE (consolidation of SEED, BIDE) PEP-SEI	9%		PEP-SE PEP-SEI PEP CIC CES	Financial Sector Development and Access to Finance, BEE, linkages and Infrastructure
		Regional: \$10.7m.	Global: \$10.5m.		
GLOBAL	<ul style="list-style-type: none"> FIAS DEVCO SME Initiatives CES Facilities (SBI, SBAP, GEF, PPSPF, CES GEF) EIDF (Extractive Industry Dev. Facility) TATF GBI/GBF Global Corporate Governance Forum (GCGF) 	25% (\$62.2m, this amount includes just the global projects, the projects delivered to regions are already included above)	100% (\$244.7m)	FIAS CIA/CAS GBD SME unit CES COC CAG	

Source: IEG.

a. For global business units, see "Global" region.

b. Starting in 2005, this facility extended its coverage from SME to other business lines.

APPENDIX G: PROJECT SAMPLE REPRESENTATIVENESS—ADVISORY SERVICES

Table G.1. Representativeness of IEG's 2006–08 PCR Reviews
(compared with 2006–08 PCR population)

IEG project reviews take place following a self-assessment by IFC (Project Completion Report). Accordingly, the representativeness of IEG review coverage can be determined based on the population of PCRs for a particular period of time. This table compares the breakdown of the IEG review sample from inception of the PCR system in 2006 up to June 2008, with the population of PCRs completed since inception in 2006 through June 2008. For reference, the table includes the breakdown of the active AS portfolio.

	Active portfolio # (as of June 2008)	%	PCR population # (as of June 2008)	%	PCR sample # (as of June 2008)	%
			707	100	458	65
REGION						
Central and Eastern Europe	44	5%	66	9%	32	7%
East Asia and Pacific	131	16%	141	20%	88	19%
Latin America & Caribbean	92	11%	84	12%	53	12%
Middle East and North Africa	87	10%	98	14%	62	14%
South Asia	79	9%	54	8%	38	8%
Southern Europe and Central Asia	83	10%	70	10%	54	12%
Sub-Saharan Africa	189	23%	138	20%	101	22%
Global	134	16%	56	8%	30	7%
Grand total	839	100%	707	100%	458	100%
PRIMARY BUSINESS LINE						
Access To Finance	226	27%	134	19%	90	20%
Business Enabling Environment	170	21%	225	32%	162	35%
Environment and Social Sustainability	135	16%	109	15%	63	14%
Infrastructure	98	12%	75	11%	45	10%
Value Addition to Firms	193	23%	164	23%	98	21%
Grand total	822	100%	707	100%	458	100%

(Table continues next page)

Table G.1. Representativeness of IEG's 2006–08 PCR Reviews (continued) (compared with 2006–08 PCR population)						
	Active portfolio # (as of June 2008)	%	PCR population # (as of June 2008)	%	PCR sample # (as of June 2008)	%
IDA STATUS FY08						
IDA blend	123	15%	92	13%	59	13%
IDA-only	260	31%	200	28%	137	30%
non-IDA	245	29%	270	38%	170	37%
(blank)	211	25%	145	21%	92	20%
Grand total	839	100%	707	100%	458	100%
SIZE (Total Funding)						
X = < 15,189	4	0.5%	13	2%	7	2%
15,189 < X = < 686,287	519	62%	614	87%	410	90%
X > 686,287	315	38%	79	11%	40	9%
(blank)	1	0%	1	0%	1	0%
Grand total	839	100%	707	100%	458	100%
SIZE (Total Funding, Quartile)						
X = < 84,250	77	9%	177	25%	117	26%
84,250 < X = < 312,080	254	30%	352	50%	240	52%
X > 312,080	507	60%	177	25%	100	22%
(blank)	1	0%	1	0%	1	0%
Grand total	839	100%	707	100%	458	100%
PRODUCT TYPE (at June 2008)						
Developed	257	31%	151	21%	95	21%
In development	307	37%	264	37%	171	37%
Legacy	105	13%	146	21%	100	22%
Other	154	19%	146	21%	92	20%
Grand total	823	100%	707	100%	458	100%
START FY						
1996–2003			96	15%	63	12%
2004			120	17%	90	20%
2005			197	28%	127	28%
2006			197	28%	121	26%
2007			91	13%	52	11%
2008			6	1%	5	1%
Grand total			707	100%	458	100%

Table G.1. Representativeness of IEG's 2006–08 PCR Reviews *(continued)*
(compared with 2006–08 PCR population)

	Active portfolio # (as of June 2008)	%	PCR population # (as of June 2008)	%	PCR sample # (as of June 2008)	%
END FY						
1996–2003			6	1%	4	1%
2004			29	4%	28	6%
2005			103	15%	89	19%
2006			180	25%	153	33%
2007			236	33% ^a	132	29% ^a
2008			152	21% ^a	52	11% ^a
(blank)			1	0%		
Grand total			707	100%	458	100%

Source: IEG.

a. The lower proportions of reviewed PCRs in 2007 and 2008 reflect the exclusion from the review of 47 PCRs for projects that ended in 2007 and 2008 for which development effectiveness ratings could not reasonably be expected to be achieved (e.g., one-off conferences, workshops, and feasibility studies). In such cases, independent review of development performance is not meaningful.

APPENDIX H: PROJECT EVALUATION METHODOLOGY—ADVISORY SERVICES

The development performance indicators and rating criteria applied by IEG in reviewing Advisory Services Project Completion Reports (PCR) are set out in table H.1 below.

Table H.1. Project Performance Indicators and Rating Criteria for IFC Advisory Services Operations

Rating	Definition	Excellent	Satisfactory	Partly satisfactory	Unsatisfactory
Strategic relevance	Importance to achieving country strategic objectives, appropriateness at initiation and completion, including whether Advisory Services was the appropriate instrument	Major priority issues addressed; National/regional level impact was achieved; Highly appropriate for conditions at initiation and completion; Appropriate client contribution was achieved	Major priority issues addressed to a large extent; Potential major impact on direct recipients and/or local community; Appropriate for conditions at initiation and completion; Majority of appropriate cost recovery achieved	Some priority issues overlooked; Assistance was appropriate at initiation, but conditions changed and assistance was not adopted accordingly; Less than appropriate cost recovery achieved	Addressed low priority issues; Not appropriate given the conditions at initiation; No cost recovery, or contribution was not appropriate
Output achievement	Immediate project deliverables (products, capital goods, services, or advice)	All major outputs achieved with excellent quality; or More than expected outputs achieved with at least satisfactory quality	All major outputs achieved with satisfactory quality	At least one major deliverable not achieved; or At least one major output of less than satisfactory quality	Few or no major outputs achieved; or Several major outputs of less than satisfactory quality
Outcome achievement	Short- or medium-term (positive and negative, intended or unintended) behavioral changes resulting from the advisory project	All or most major outcomes achieved; Client attributed changes in behavior and performance to the advisory project.	Most of the major outcomes achieved; Client indicated the advisory project contributed to major changes in behavior and performance.	Less than half of the major outcomes achieved; Client attributes limited influence on behavior/performance changes.	Few or none major outcomes achieved; Client attributes limited influence on behavior/performance changes or they had perverse effects
Impact achievement	Intended longer-term effects of the advisory intervention	Exceptional benefits beyond direct recipients, at the national, regional, global level; Impacts extended nationally or internationally as best practice and recommended for replication; All major impacts achieved with strong attribution to the project backed by evidence from a solid methodology.	All intended impacts on direct recipients have been achieved with attribution to the project backed by solid evidence; Most direct impacts have been achieved and some impacts were achieved beyond direct recipients with attribution to the project backed by solid evidence.	Intended impacts on direct beneficiaries mostly achieved, but attribution to the project is weak; Intended impacts partly achieved; but some negative impacts occurred	Intended impacts not achieved; or Negative impacts occurred
Efficiency	Ratio of costs to benefits; Economy in use of resources; Cost in relation to alternatives	Highly positive cost-benefit ratio; Resources expended highly economically; Resources far less costly than alternatives	Positive cost-benefit ratio; Resources expended economically; Resources reasonable in relation to alternatives	Negative cost-benefit ratio; Resources could have been at times expended more economically; More reasonable alternatives available and could have been used	Highly negative cost-benefit ratio; Resources could have generally been expended more economically; Significantly more reasonable alternatives available and could have been used
Development effectiveness	Synthesis (not an average) of the above five dimensions	Six-point scale, ranging from highly successful (overwhelmingly positive development results and virtually no flaws) to highly unsuccessful (negative developments and no positive aspects to compensate).			

Source: IEG.

APPENDIX I: FINDINGS FROM IFC-COMMISSIONED REVIEWS OF IFC ADVISORY SERVICES

This appendix summarizes some of the main findings from 51 IFC-commissioned reviews that were completed up to December 2008. They encompass: 7 program reviews; 16 product reviews; and 28 project reviews (of which 7 were impact evaluations).

Program Reviews

IFC-commissioned reviews have been completed for six regional facilities, and one business line.

Findings on **alignment** include:

- *Strategy:*
 - The facility does not have an overall strategy, just an aggregation of five business line plans.
 - The rush to ramp up has affected long-term planning. Strategies have not addressed market conditions, articulated goals, constraints, the facility role, etc.
 - Sector-based approaches are generally sound, but more comprehensive strategies should be developed.
- *Organizational structure:*
 - Some regional programs and a department did not have formal relationship to the regional facility. The business line is mainly managed by a department, rather than facility staff. On the other hand, in the investment climate area, the structure is different and strategically coherent.
 - The business line is run largely independent of the facility, with staffing split between the two.
- *Coordination with others:*
 - Organization by pillars, rather than by country, seems to constrain identification of synergies with the Bank.
 - Some awareness of each others' programs (with the Bank), but limited exchanges of views and common programs.

- The facility works in close cooperation with the Bank Group and other donors.
- Generally, the facility has a positive relationship with IBRD. Three of five IBRD country managers said the facility had met or exceeded expectations. PSD specialists say the relationship has been very strong in some countries but more interaction regarding SMEs is desired.
- Links with investment is unclear to staff regarding the extent to which they should/should not be linked.

Findings on **delivery** include:

- *Funding/pricing:*
 - Limited assessment of client willingness to pay and existence of market failure/s. In two cases, the client was likely to hire a consultant, and pay, without IFC's help. In another case, the facility underwrote the cost of key information systems that the company was already using.
 - Almost none of the investment clients receiving IFC AS paid the full cost.
- *Project design:*
 - Project timetables are often unrealistic.
 - Potential problems and time horizons have been underestimated.
 - Pressure to "ramp up," rather than a deliberate process of resource allocation.
- *Project implementation:*
 - Management of the business line projects has suffered from lack of staff continuity, sporadic coordination between the objectives of the business line projects and IFC investment operations, and low allocation of resources and staff incentives for the task managers. A general lack of management attention to technical assistance projects appears to be

the principal factor, since IFC performs these same functions well in investment operations, often with the same implementing partner.

- *Staffing:*
 - Ninety-five percent of staff are co-terminus with the facility, 5 percent are open-ended; 34 percent of staff work in admin/mgmt roles, indicating a high level of bureaucracy. Recruitment takes a long time, whether for one year or an open-ended hire. It is also hard to recruit the best professionals with a short-term offer.
 - Staffing is linked to donor funding, and it is difficult to recruit the best people on short-term contracts. But the facility has still ramped up relatively quickly. Supervision quality is an issue.
- *Performance M&E:*
 - IFC needs to establish metrics to measure the performance of the implementing organizations according to commercial industry standards.
 - Confusion exists over logic models and indicators among staff. Too many and inappropriate indicators are chosen. Supervision reports are not submitted in a timely fashion.
 - The facility has been struggling to find the right process controls and tracking systems.
 - Financial controls are in place, but budget and cost accounting could be strengthened.
 - The validity and reliability of results data are questionable. The focus should be on data collection and simple reporting, rather than critical analysis. Baseline data is lacking.
 - Very strong in this facility, contributing to a better definition of the facility's program (e.g., through lessons and results dissemination), and acknowledgement in headquarters.
 - There is room for improvement in financial management (budgeting, approval, and expense tracking).
 - There are a number of problems with the validity and reliability of performance data.

Findings on **effectiveness** include:

- *Relevance:*
 - The facility has carried out relevant activities, although the pattern of expenditures did

not always reflect the relative needs of countries in the region. For example, roughly the same level of funding was budgeted for projects in some countries where there is a huge disparity in income levels. By business line, expenditure levels also show no relationship with objective indicators of country needs for services, such as assistance on improving the business environment, expanding private credit, and developing private infrastructure.

- All pillars address important issues regarding business development in the region. However, for some pillars, the linkages between business development and development impact would have to be supported by empirical studies.
- The facility's programs have been relevant to the private sector development needs in the countries concerned. Allocation of resources across countries seems reasonable, with no major duplication of efforts among donors and no major holes in coverage.
- *Results:*
 - Of the nine programs reviewed in depth, all were in accordance with the facility's strategy, and addressed identified needs. Six of them were considered to have achieved satisfactory or better effectiveness. However, in two cases, each rated "good" for effectiveness, linked investments were not yet operational, and, accordingly, effectiveness was based on the likelihood of good outcomes rather than realized outcomes.
 - The facility appears to have been effective in achieving certain objectives: i) helping to increase credit available to underserved markets; ii) improving the skills of business managers, reducing regulatory burdens on businesses; and iii) securing private participation in public infrastructure projects. At the same time, a number of projects did not appear to have generated the intended outcomes. Generalizations from these findings are, however, limited, since the review looked at only four projects in depth (projects that had been selected by the facility as "best examples" of the ones that generated significant development impacts, thus not representative of the

population of facility's projects) and relied heavily on interviews with staff and secondary data provided by the facility.

- Many activities have proved effective, such as contributions to business legislation. However, "the case that these programs have been effective in achieving stated objectives is harder to make." The review points to some successful and some less successful programs.
- Many changes within organizations supported by the facility are likely to persist, such as skills and process improvements.
- Some initiatives "have met with considerable success," while others "had limited reach and limited impact."
- Three main success factors: i) sound planning (e.g., consistent with the long-term plans of the client) and execution; ii) effective follow-through; and iii) integration of projects within a particular sector.
- Better performance where IFC has significant experience; steep learning curve for business lines, where IFC is working with new types of stakeholders and beneficiaries.
- Viability and scalability is most robust when the initiative is developed within a commercially structured institution. In this business line, AS projects perform at their best when they enhance a direct IFC investment or a related advisory program (synergies in program design and incentives to achieve success are greater when linked). More like a traditional donor grant program if not linked.
- **Efficiency:**
 - The transaction costs associated with AS and investment operations with individual FIs are high relative to the scale of these operations.
 - Higher for developed pillars: Accumulated experience allows IFC to replicate and scale up at minimum cost, although in other pillars requiring more innovative approaches, efficiency remains to be demonstrated.
 - The facility is capturing certain economies of scope and scale by replicating programs across countries. However, some projects are unlikely to generate benefits commensurate with the level of investment.

- **IFC Role, strengths, and weaknesses:**

- The main strength of the projects is derived from IFC's strategy and multifaceted capacity to support commercially viable service providers (licensed and regulated financial institutions). The unique value proposition of the IFC vis-à-vis other development agencies, donors, and investors is generated by the IFC's ability to employ unique combinations of funding, technical support, and credibility to financial institutions and markets (it does not have to channel funding through public sector, like other donor organizations). The IFC's ability to engage policy makers on financial sector matters enables the Corporation to support market development. Few development agencies have this capacity or mandate.

Product Reviews

IFC-commissioned reviews have been completed for 16 products, 10 of which were in the CA business line.

Findings on **delivery** include:

- **Project design:**
 - A standard supply- and product-driven approach maintains consistency across projects, but needs tailoring to meet specific market needs.
 - The interventions were of mixed relevance to the company's strategic goals because of inconsistent implementation of needs assessments and lack of alignment around project goals and objectives.
 - Formal overarching plan or strategy for the development of the toolkit is absent.
- **Project implementation:**
 - Use of associations as an exit strategy has had mixed results, due largely to the availability of motivated local partners and historical context. Alternative options may need to be considered.
 - The management structure for AS projects is evolving, with standards and procedures for program design, oversight, and M&E being developed, but these are inconsistently applied across projects.

- *Staffing:*
 - Good local staff for start-up, strong project management capabilities, but need for international commercial experts.
- *Coordination with others:*
 - Links with IFC investments have taken place on an ad-hoc basis, based largely on good personal relationships.
- *Performance M&E:*
 - A system for reporting on deliverables is in operation, but it needs to be standardized.
 - M&E framework systematically tracks outputs and some outcomes, but limited focus on impacts. Need for qualitative case studies to complement data.
 - Lack of baseline data prior to the intervention and the absence of standard reporting metrics in the social investment space.
 - Baseline data and program monitoring is weak.
 - Measurable objectives and associated metrics have not been developed.

Findings on **effectiveness** include:

- *IFC Role, strengths, and weaknesses:*
 - Advocacy in operations has been a key strength, given the strong working relationships that IFC enjoys at very high levels of government. This was critical to the adoption of legislative agenda in all three of the mature projects. There may be need for more attention to developing a mechanism to continue the advocacy role after completion of the IFC project.
 - IFC is in a very strong position to be the market leader with the product.
 - The team initiated the supply of training of this type, the market-making task is done, and the work is no longer unique in most markets and cannot be justified in the country. Donors would be willing to subsidize, in poorer markets, but more willing to do so if the business line is separated from IFC. Best to hand over to local training companies, and have a foundation manage the brand globally.
 - 79 percent of SMEs attributed success in securing contracts with the client to IFC sup-

port. Rationale for IFC intervention, however, is not always clear.

- Attempting to bring about the “change in the organization’s DNA” from that of a socially oriented organization to a commercially viable enterprise is an ambitious endeavor.
- IFC strengths: i) Strong local staff backed by worldwide experience; ii) High level support and credibility with governments; iii) Ability to leverage TA funds and manage partnership with key donors; iv) Global reach and continuing presence in markets; v) The ability to invest and provide liquidity to the market; vi) Strong project management capabilities.
- IFC weaknesses: i) A supply-driven approach to project design, based on a standard product (developed for the Russian market) rather than on needs identified in a given market through an ex-ante needs-assessment; ii) A shortage of specialists with commercial operating experience both to act as short-term resources for projects, but also to advocate for leasing in headquarters; iii) An evolving management structure for AS projects, with standards and procedures for program design, oversight, and M&E being developed, but still inconsistently applied in the field; and iv) A lack of institutional mechanisms linking AS activities with investments.

Project Reviews

Project reviews were completed for 28 projects, of which 4 were impact evaluations involving control group designs.

Findings on **results** include:

- Enrollment increased; revenue went up, but costs also increased.
- Higher quality treatment and outcomes with private provision, compared with public provision.
- Better business behavior of trainees, but no significant difference in business results between those trained and not trained.
- No significant difference in practices between participants and nonparticipants.

APPENDIX J: HIGH-LEVEL COMPARISON OF IFC ADVISORY SERVICES WITH OTHER MULTILATERAL DEVELOPMENT BANKS

Introduction

The purpose of this exercise is to provide perspective on IFC's Advisory Services (AS) for private sector development (PSD) by comparing them with PSD-related advisory services provided by other donors. Across the major bilateral and multilateral donors, the appendix compares PSD strategies, volumes, and types of AS, delivery mechanisms, funding and pricing, monitoring and evaluation systems, and results and lessons learned.

Information was gathered from websites and telephone interviews with each of the major multilateral donors: the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), the Inter-American Development Bank (IDB), the African Development Bank (AfDB), the European Commission (EC), and the European Investment Bank (EIB)—and two bilateral donors: the U.K. Department for International Development (DFID) and the Danish International Development Assistance (DANIDA). Interviews were conducted with staff and managers in sectoral and regional departments, as well as independent evaluation departments. Documents reviewed included PSD and regional strategies, descriptions of TA projects and programs, and independent and self-evaluations of PSD TA projects and programs.

Quantitative benchmarking was limited by the lack of detailed data on PSD AS from many of the donors, largely because of the result of inadequate monitoring and evaluation systems. Thus, the appendix presents comparisons only for donors and dimensions where the data seem to measure the same concepts. Most of the quantitative information was taken from independent evaluations, or from annual reports.

Strategies and Objectives

PSD and AS strategies

During the late 1990s, most donor strategies for PSD were based on the OECD Development Assistance Committee (DAC) guidance for donor actions to support private sector development. The “DAC Orientations” addressed the fundamentals of privatization, financial sector reform, and enterprise development. Most donors tended to reproduce the DAC framework without indicating areas of priority for their own interventions. None attempted to develop the analytic linkage between PSD and poverty reduction, nor were national PSD assessments prepared that could be the basis for tailored interventions.

More recent PSD strategies have made progress on both of these issues. Most—including the 2002 PSD Strategy of the World Bank Group (WBG)—now attempt to draw the analytical link between PSD and poverty reduction by tracing the logical framework from improved competitiveness and productivity at the enterprise level to increased growth at the sector and economy levels, and calling upon a growing body of research to establish the link between economic growth and poverty reduction. Some PSD strategies, again including that of the Bank Group, call for assessments of the investment climate and institutional capacity to direct project design (fewer carry them out in practice—see below).

Most donor strategies for PSD aim to:

- Improve the market conditions within which private firms operate (improving the business environment, reforming the legal and regulatory framework, developing markets for financial and nonfinancial services, strengthening

public and private sector institutions relevant for PSD, improving governance).

- Make individual firms more competitive (facilitating privatization, helping firms adopt better technologies, building labor and management skills). Among the types of firms, small- and medium-enterprises (SMEs) are the typical target group.

Table J.1 shows, for selected donors, the objectives of PSD assistance, and of PSD TA activities more specifically. Scanning the table, what stands out is the similarity of PSD strategies across donors—probably the result of efforts to harmonize donor practices via the OECD DAC guidelines, as well as the efforts of other coordinating groups (e.g., the Committee of Donor Agencies for Enterprise Development).

Levels of intervention

Most PSD AS strategies distinguish between three “levels” of intervention for PSD: i) macro level (policies), ii) meso level (institutions), and iii) micro level (firms) (table J.2). It is useful to make two more divisions. At the macro level, interventions can focus on classic macroeconomic policy (monetary, fiscal, trade, and exchange rate), and the legal and regulatory framework. The meso (institutional) level includes both public and private sector institutions. The private sector, of course, extends across the meso level (private sector institutions) and micro level (nonfinancial enterprises). Sometimes, donor PSD strategies include physical infrastructure (telecom, ports, transport) under the macro level, but table J.2 excludes these physical investments since they are not TA activities.

In general, donor PSD strategies have begun to emphasize interventions at the macro and meso levels, de-emphasizing micro-level interventions unless they have demonstrable impacts beyond the beneficiary firm. This strategic shift away from direct, firm-level PSD support was the result of accumulated experience with projects. Because of their low outreach, micro-level interventions usually failed to have much impact beyond the beneficiary firms. The previous “division of labor,” in which multilaterals provided the greater part of enabling environment support, and bilaterals were

largely marginal in this field, has become less apparent. The majority of donor strategies now claim to assist at the macro and meso levels (figure J.1).

Despite the agreement in principle to move away from micro-level interventions, the practice of donors, both multilateral and bilateral, only weakly reflects this consensus. While the leading multilaterals do focus on the macro level, and some bilaterals provide funds to multidonor business environment programs, there are few signs of programs involving direct support to enterprises being cut back. Canada and Sweden, the bilaterals whose policy statements best reflect the emerging consensus, still retain programs entailing direct support to enterprises, including—in Canada’s case—a large enterprise-to-enterprise match-making program. The EC PSD Strategy says that particular attention should be given to macro-level interventions, but also leaves room for micro-level programs that can crowd out private initiative and introduce market distortions. The recent evaluation of EC PSD activities concludes:

“Most meso- and micro-level programs are focused on provision of services, directly or through intermediate organizations: provision of a credit line, provision of BDS, organization of business trips, and so on. These services are always provided at subsidized rates and in the great majority of cases do not tackle the causes of the malfunctioning of the market. In other words, the program substitutes the private sector instead of trying to reinforce the market. In that sense, it is possible to say that there is a gap between the strategy proposed by HQ and its implementation in the field.”

EBRD operates mainly at the micro level, both through the Turnaround Management and Business Advisory Services (TAM/BAS) programs, as well as other AS that are tied to the preparation and implementation of EBRD investments. EIB intervenes exclusively at the micro level, as virtually all of its assistance focuses on preparing and implementing EIB investments. On the other extreme, the Integrated Trade-Related Technical Assistance program funded by DFID (and other donors) focuses almost entirely on the macro

Table J.1. Strategic Objectives

Organization	PSD objectives	PSD TA objectives
IFC	<p>PSD strategic directions:</p> <p>PSD is a way of doing things, not a sector.</p> <p>PSD is about a good balance between the complementary functions of the state and the private sector.</p> <p>Public policy for the private sector and direct support to the private sector need to form part of a comprehensive approach to development and reflect country and sector conditions.</p> <p>Specific PSD objectives: Extending the reach of markets, improving access to basic services.</p> <p><i>World Bank (2002).</i></p> <p>IFC priorities:</p> <p>Strengthening the focus on frontier markets, including SMEs and agribusiness</p> <p>Building long-term partnerships with emerging players in developing countries</p> <p>Addressing climate change, and environment and social sustainability activities</p> <p>Addressing constraints to private sector growth in infrastructure, health, and education</p> <p>Developing local financial markets through institution building, the use of innovative financial products and mobilization</p> <p><i>(IFC 2008)</i></p>	<p>No overarching strategy for AS. Direction is provided by IFC Corporate Strategies and Road Maps.</p> <p>"IFC Advisory Services are an important and growing part of IFC's business. They contribute significantly to IFC's additionality by improving the business enabling environment for the private sector, as well as the capabilities of companies."</p> <p>"A number of programs are being developed to promote combined investment and advisory services to increase IFC's value-added to projects."</p> <p><i>(IFC 2008)</i></p>
ADB	<p>For public sector operations: (i) to support developing member country governments in creating enabling conditions for business, and (ii) to generate business opportunities in ADB-financed public sector projects. For private sector operations, to catalyze private investments through direct financing, credit enhancements, and risk mitigation instruments. For both public and private sector operations, there are four areas of focus: (i) governance in the public and private sectors, (ii) financial intermediation, (iii) public-private partnerships, and (iv) regional and subregional cooperation. <i>ADB (2000)</i></p>	<p>For public sector operations, TA seeks to help formulate the regulatory and institutional frameworks needed to make markets work better and to build the capacity of market regulatory authorities. Specific areas of intervention for TA are policy reform, institutional development, privatization, corporate governance, financial sector, and SMEs.</p> <p><i>(ADB 2000, 2007)</i></p>
EBRD	<p>EBRD's PSD strategies are part of: (i) country strategies for each country, which include a private sector section, and (ii) sector-specific strategies (agribusiness, energy, natural resources, property, shipping, and transport), which cover the public and private sectors, depending on the subject. <i>(EBRD website)</i></p> <p>MSME strategy: "to provide support for MSMEs across all of the Bank's countries of operations, strengthen the financial sector infrastructure dedicated to financing growth of MSMEs of all sizes, improve the business environment for MSMEs, and develop the skill sets of entrepreneurs." <i>(EBRD 2006)</i></p>	<p>For the TAM/BAS program, "to promote the economic transition through advice and mentoring at the enterprise level and the development of a sustainable infrastructure of business advisory services, and to contribute to improving the policy and regulatory environment for business." <i>(EBRD 2007b)</i></p> <p>For investment-related TA, to promote institutional reform and improved corporate governance. <i>(EBRD website)</i></p>

(Table continues next page)

Table J.1. Strategic Objectives (continued)

Organization	PSD objectives	PSD TA objectives
IDB	Four "strategic directions": (i) development of an enabling environment for business, (ii) financial support for specific private sector projects, (iii) leveraging developmental impact in underserved markets, and (iv) engaging the private sector in dialogue and action. (<i>IDB, 2004</i>)	The IDB's technical assistance supports private sector development by restructuring and modernizing the public sector, supporting investment sector reform, promoting regional trade and integration, and supporting micro and small businesses. (<i>IDB 2004</i>).
AfDB	The AfDB aims at inducing private sector growth in regional member countries (RMC) by: (i) supporting reforms of the policy/regulatory enabling environment for private sector in RMCs through country dialogue and policy-based operations; (ii) improving the physical and financial infrastructure in RMC to enhance private enterprises productivity and competitiveness; (iii) supporting the strengthening of human capital, in terms of expanded technical assistance, transfer of skills, know-how and technology; and (iv) catalyzing in-flow of financial resources to RMCs through direct investment and diversification of financial services. (<i>AfDB 2004</i>)	Technical Assistance Facility: Policy advice and technical assistance to governments in order to facilitate the creation of an enabling environment, promote privatization schemes, revise and rationalize investment codes and fiscal regimes, promote foreign direct investments, develop the financial sector and capital markets, etc. Financial advisory services to governments for privatization projects. Advisory services to private operators on the formation of new projects or the restructuring of existing ventures. Technical assistance to private sector clients in order to overcome important constraints or capacity deficiencies. Technical assistance to other economic agents, which play a role in promoting private sector development, such as business associations, etc. (<i>AfDB 2004</i>)
EIB	PSD strategies are prepared at the country level. (<i>EIB website</i>)	To support the preparation and implementation of EIB investments. (<i>EIB website</i>) For Mediterranean countries, "to support activities upstream of projects such as policy, legal, regulatory, and institutional reform, sector development strategies, capacity-building and training." (<i>EIB 2006</i>)

Sources: Shown in italics.

level, funding country-level diagnostics of external and internal constraints to global trade.

The EC, IBRD/IDA, IDB, and the other multilateral development banks intervene at all three levels. The same is true for IFC, but macro-level Advisory Services are limited to legal and regulatory frameworks. The Corporate Advice (CA) business line focuses on individual firms, supporting privatization transactions, as well as providing assistance to SMEs. Access to Finance (A2F) operates mainly at the institutional level, assisting financial intermediaries in developing financial

instruments and extending access to smaller firms. The Business Enabling Environment (BEE) and Environmental and Social Sustainability (ESS) business lines work at both the policy and institutional levels. The Foreign Investment Advisory Service (FIAS), Multilateral Investment Guarantee Agency (MIGA) TA to investment promotion agencies, and the Doing Business and Getting Finance assessments are part of the BEE business line. Finally, the Infrastructure (INF) business line involves both the micro level (public-private partnerships) and the macro and meso levels (regulation of natural monopolies and related institutions),

Table J.2. Levels of Intervention for PSD AS

Macro level		Meso level		Micro level
Macroeconomic policy	Legal and regulatory framework	Public sector institutions	Private sector institutions	Individual firms
Trade and exchange rate policies	Regulation of natural monopolies	Competition authorities	Chambers of commerce	Management skills and entrepreneurship
Monetary policy and inflation control	Competition policy	Banking regulators	Employers organizations	Manpower and labor skills
Tax policy and fiscal expenditure	Bankruptcy law	Revenue and customs authorities	Labor unions	Technology, expertise, quality management
Labor market policy, observance of labor standards	Legal system	Courts	Financial intermediaries	Access to finance
Financial sector regulation and supervision	Anticorruption and transparency	R&D institutions	Trading exchanges	Access to information
Privatization policy	Property rights	Training institutions	BDS providers	
		Investment promotion agencies	Quality, testing, and certification centers	

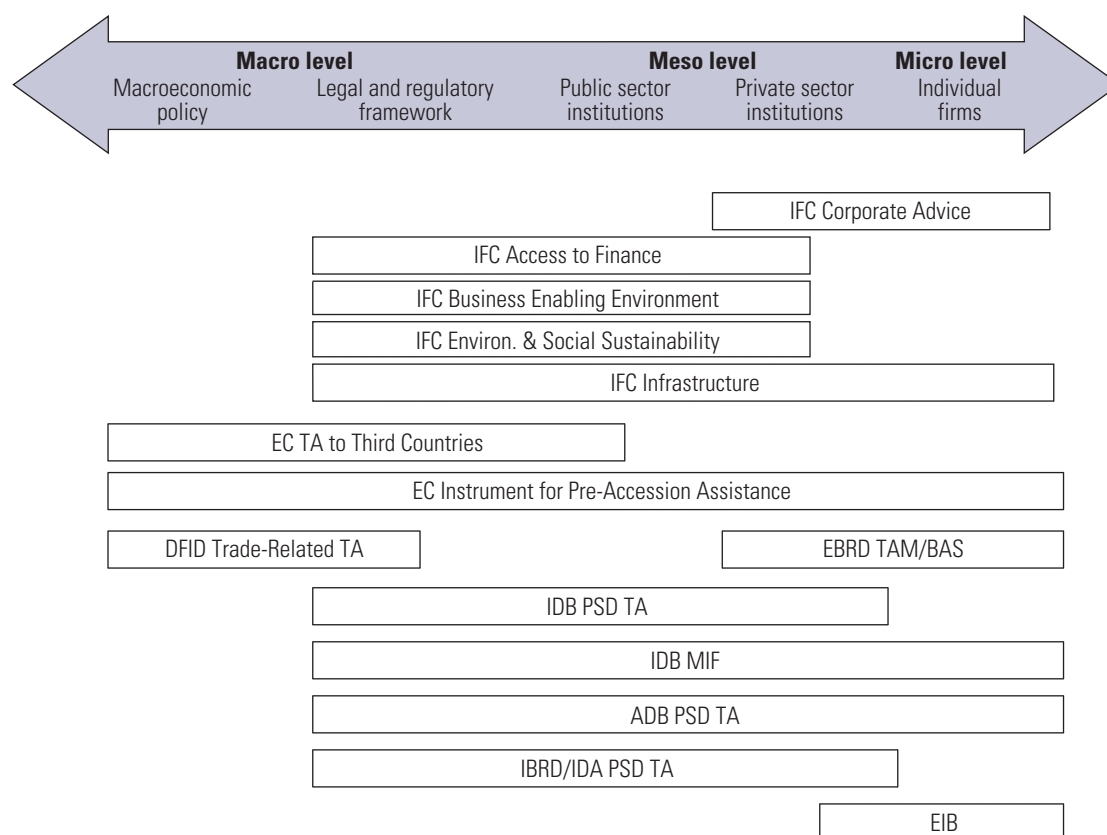
Figure J.1. Focus of AS Interventions in PSD Strategies

Table J.3. Integration of AS with Core Activities

Private sector lending and investments	Public sector lending	No equity or lending operations
EIB: Virtually all PSD TA is tied to existing or potential investments (<i>donor interviews</i>)	IBRD/IDA: Of ESW delivered during fiscal 2002–06, 41% were aimed at informing Bank lending.	DFID, DANIDA, and other bilateral donors: PSD TA is independent (<i>donor interviews</i>)
EBRD: 88% of TA supports EBRD investment projects (<i>EBRD website</i>)	About two-thirds of a selected sample of 119 loans was preceded by ESW, including nearly all development policy loans	
IFC: 20–30% of AS supports IFC equity and lending operations	ESW (and sometimes TA) was generally used to inform country strategies. (<i>all from World Bank 2008</i>)	
	ADB: 25% of TA approvals (2000–06) were for project preparation (<i>ADB 2007</i>)	

Sources: Shown in italics.

including the assistance provided by the Public-Private Infrastructure Advisory Facility (PPIAF).

Integration with core activities

For donors that invest and lend directly to private firms, AS at the micro level tends to be closely linked with these core activities (table J.3). In these cases, trust-funded AS can be seen as an alternative to project preparation funding from the donor's administrative budget. This is the case with EIB, for example: virtually all of the PSD TA provided by EIB is intended to assist in the preparation and implementation of potential investment operations.

The integration of IFC's AS with lending and investments is less than EIB's, but is still important. Advisory Services under the Infrastructure business line in particular tend to be linked with potential IFC investments. Overall, the share of IFC AS that is tied to existing or potential investments (measured by percentage of new project approvals) has been between 20 percent and 30 percent. For the future, IFC's strategy is to increase these linkages.

Donors that lend directly to governments also integrate their PSD AS with lending operations, but the interventions are mostly at the meso and macro levels, supporting policy and regulatory reforms and institutional development. IBRD/IDA and the other MDBs fall into this group. Most of these donors have called for closer links with lending activities at the country level in order to improve the strategic focus of PSD TA.

Finally, the bilateral donors, whose core activity is not investment and lending operations, offer "independent" PSD TA.

Direct interventions versus market development

Experience has shown that direct, subsidized provision of both credit and Business Development Services (BDS) tend to distort markets and have low sustainability. Most donors seem to have learned these lessons in their financial services interventions, but fewer have adopted the "market development approach" to BDS. For example, although the EC's PSD strategy explicitly adopts donor guidelines on BDS market development, in practice the EC maintains programs

Table J.4. Volume of PSD AS

Organization and program	Coverage and time period	Number of activities	Expenditure (US\$m)
IFC Advisory Services	All five business lines, total project-related and non-project-related expenditure, FY07	450	\$190.5m
ADB PSD AS	2006 approvals	260	\$241m
	2004–06 avg./yr.	294	\$213m
EBRD PSD AS	TA financed by Technical Cooperation Trust Fund (TCTF), 2007 Of which: TAM/BAS	—	\$137.5m
		—	(EUR 98.2m)
			\$16.5m
			(EUR 11.8m)
IDB MIF	Nonreimbursable technical cooperation grants, 2007	116	\$100m
IBRD/IDA PSD ESW and AS	Economic and sector work in PSD sector, FY06	75	\$10.261m
	Nonlending TA in PSD Sector, FY06	27	\$4.316m

Sources: IFC (2007), ADB (2007), EBRD website, IDB MIF website, World Bank (2008).

that provide subsidized BDS directly to SMEs. In a similar way, IFC maintains demand-side subsidies for BDS to SMEs in its PSD projects with IDA in the Africa Region. In countries where markets for advisory services are well-developed, IFC runs the risk of crowding out the private sector when it directly provides competing services.

Alignment between strategy and operations

A frequent complaint found in evaluations of donor PSD assistance is that the actual activities implemented are not well aligned with the stated PSD or PSD AS strategy. Instead of following a strategic, top-down approach, actual practice is more consistent with an opportunistic, bottom-up approach. For donors, such as EIB that are providing PSD AS primarily as a complement to private sector investments, it makes sense that TA projects are made opportunistically. For other donors, the lack of alignment between strategy and project selection reflects unresolved issues of staff incentives, the desire to disburse, competition with other donors, or a lack of relevance of the strategy with country conditions.

Recent PSD and PSD AS strategies call for diagnostics of local conditions—in the investment climate, institutional capacity, or market development—to be carried out before an AS program is designed. In practice, these are seldom done, although the Bank Group’s Investment Climate Assessments, FIAS diagnostics, and Doing Business/Getting Finance assessments are exceptions to the rule.

Volume and Types of Advisory Services

Table J.4 presents information on the volume of PSD AS activities of some of the major donors. In FY07, IFC spent about \$191 million on AS. This figure includes project expenditures for all five business lines, as well as project-related expenditures (program management and support, new business development, and monitoring and evaluation) and non-project-related expenditures. By comparison, ADB spent about \$241 million on PSD AS in 2006, an increase from an annual average of \$213 million over 2004–06 (amounting to about 3 percent of ADB operations). EBRD provided about \$138 million from its Technical Cooperation Trust Fund in

2007, up from an average of \$112 million annually in recent years. IDB's Multilateral Investment Fund (MIF), the primary source of PSD AS not funded by IDB loans, spent about \$100 million during the same year. IBRD/IDA spent about \$15 million in FY06 on economic and sector work (ESW) and AS in the PSD sector, about the same amount that was spent per year during the previous five years.

By area of activity, IFC has focused particularly on A2F and CA. By comparison, EBRD had also focused on the financial sector—39 percent to banking, the Direct Investment Facility (DIF), and the Direct Lending Facility (DLF); and 26 percent to infrastructure. EC support has been directed to “institutional and structural reforms” (42 percent of PSD AS) and “enhancing human resources and capacities” (24 percent), although this data is quite old (1994–2003). The general conclusion is that, consistent with their PSD strategies, other donors cover a wide range of “sectors” or “business lines” in their PSD AS. IFC's range of AS does not stand out in this regard. However, IFC's expenditure on ESS does not appear to be matched by the other donors.

There is very little comparable data on the mix of PSD AS “outputs” provided by donors. The range of outputs includes:

- reports (sector and thematic studies, policy notes, diagnostics, advisory reports)
- surveys, data collection, and data analysis
- policy advice
- drafting of legislation, client document review
- technology adoption advice
- capacity-building and change management in institutions
- twinning arrangements with private firms
- knowledge-sharing forums: conferences, seminars, workshops, and training courses
- preinvestment and preprivatization due diligence
- institutional development plans
- “how-to” guidance (technical notes, implementation plans, “best-practice” manuals, procedural guidelines)

PSD AS outputs are rarely standardized, either in terms of format or approach. An evaluation of the Asian Development Bank's PSD AS concluded that there is scope for greater standardization in many products (e.g., training seminars). The Bank Group's core diagnostic reports on the investment climate (Investment Climate Assessments, Doing Business and Getting Finance indicators) stand out as highly uniform products.

Project Selection, Management, and Delivery

Selection process

Several independent evaluations of donor-funded PSD AS programs indicate that the process of identifying and selecting projects is more ad hoc than the donors' PSD strategies would suggest, and that quality-at-entry (QAE) processes are weak.

- An evaluation of the European Commission's PSD AS found that project decisions were made because the choice seemed “evident” or was an extension of past community support. The importance of sound diagnostic work before deciding where and how to intervene was underestimated.
- A 2007 evaluation of ADB's AS in all sectors found that AS formulation processes were inadequate: there was no formal guidance on the preparation of TA proposals; guidelines produced in 2003 were never finalized or adopted, and there were weaknesses in quality-at-entry processes. The role of the Staff Review Committee has diminished over time, and such meetings usually are waived.

Headquarters vs. field management

The trend among most donors seems to be to initiate and manage PSD AS—particularly stand-alone AS that is not integrated with the organization's core activity—from country or regional offices (table J.5). This is consistent with the trend in IFC. Independent evaluations of several donor-funded programs have found similar advantages decentralizing AS management to the field, including better identification of needs and tailoring of

Table J.5. AS Management and Personnel

	Location of project management	Nature of TA personnel
IFC	Compared to IFC investment personnel, a higher percentage of AS projects are managed from field offices (e.g., Facilities)	Compared to IFC investment personnel, a higher percentage of AS personnel are short-term consultants.
EIB	EIB headquarters in Brussels	Mainly international consultants; some in-house sector economists and engineers to assess and advise on individual projects
EC	PSD AS is increasingly delivered on a decentralized basis.	
EBRD	TAM: team is led by a Senior Industrial Advisor BAS: overall management and support from headquarters in London; country operations managed from field offices	TAM: Experienced directors and senior managers from developed countries, contracted on the basis of individual projects BAS: local consultants who have undergone an accreditation process work directly with SMEs
ADB	Despite increased delegation to resident missions, AS projects remain predominantly delivered from ADB's headquarters in Manila.	With a relatively small core of professional staff, most of ADB's AS delivery is outsourced to consultants.
IDB	PSD AS is increasingly outsourced to consultants.	

Source: Interviews; EBRD (2004, 2007a).

projects to local conditions; quicker decision-making; opportunities for more intensive local capacity building; and personnel costs. On the other hand, headquarters management has some advantages over field management: AS projects are more likely to be aligned with the organization's AS strategy, in part because field staff are overloaded with operational tasks; and headquarters management has the advantage of better transfer of lessons learned across projects.

In-house vs. outsourced personnel

Several donors rely heavily on consultants—larger consulting firms as well as individual consultants—to deliver AS (table J.5). Among those using this model are EIB, ADB, IDB, and the EBRD Turnaround Management program. The drawbacks of outsourcing have been recognized in several evaluations of AS programs.

A working group of the IDB found that AS had gradually changed from being a source of advice and assistance provided mainly by the IDB's staff

into “project-based” packages of financing to be carried out by consultants. AS was thus something IDB funded but no longer “did.” This left recipient countries to deal with the problems of managing consultants, and they were often overwhelmed.

Funding and Pricing Policy

Funding

Donors use several sources of funding for PSD AS: i) multi-donor trust funds, such as PPIAF and DevCo; ii) single-donor trust funds, such as the Japan Special Fund (JSF), an untied grant program of the Government of Japan; and, iii) internal resources contributed by the donor organization. The trend is in the direction of greater use of multi-donor trust funds to finance PSD AS. This, for example, is the case for both IDB and ADB. For IDB, the composition of financing for non-reimbursable technical cooperation changed significantly during 1990–2001. From 1990 to 1994, the Fund for Special Operations (FSO) was

the principal source of funding (54 percent of total nonreimbursable TC), followed by donor trust funds (34 percent) and the Multilateral Investment Fund (12 percent). From 1995 to 2001, the FSO represented 32 percent, donor trust funds 19 percent, and the MIF 49 percent. For ADB, trust funds are now a major source of AS funding, amounting to 38 percent of AS funding in 2006. In contrast, most of IBRD/IDA's ESW and AS is funded by internal resources (85 percent in FY06), with only a small share (15 percent) financed by trust funds.

Most donors find that pooled financing improves coordination with client countries' national development strategies, institutions, and procedures. One of the drivers for pooling is the 2005 Paris Declaration, which sets a target for 50 percent of AS flows to be coordinated behind national development strategies by 2010.

Recently, some donors have contributed internal resources to supplement external sources of funds. For example, in 2007, for the first time, EBRD provided €4.7m of the total of €15m mobilized for the TAM/BAS program. Since 2004, IFC has contributed \$840 million from IFC-retained earnings to the Funding Mechanism for Technical Assistance and Advisory Services (FM TAAS).

Most donors experience similar trade-offs and tensions with respect to funding sources. For single-donor trust funds, there may be tensions between the funding organization and the recipient organization in terms of sector or country priorities. Planning distortions may result from funds being accessed for areas of activity outside the priorities identified in country strategies, and multiple administrative procedures from different funding sources can add to the administrative costs of providing AS.

Pricing policy

Provision of AS has often come as a "free good" provided to the recipient. In particular, PSD AS that is linked with the donor's core activity (e.g., preparation for investments) is usually offered on a completely nonreimbursable (i.e., subsidized)

basis. This is the case with EIB, for example. In addition, bilateral donors, such as DANIDA, seldom require cost recovery from the client.

There are signs of some movement toward cost-sharing with the client, motivated both by the desire to increase client ownership, and by shrinking donor budgets. For the EBRD TAM/BAS program, the typical subsidy is 50 percent of the consultant cost, but some local BAS offices apply a different contribution ratio. For example, a lower client contribution may be applied in order to increase the incentive for SMEs to use consultancy services. For larger firms, the required contribution might be greater than 50 percent.

ADB addressed the issue of cost-sharing for AS operations in 2005 under its "innovation and efficiency initiative," which stated that the share of AS operations in a country's overall portfolio to be financed by ADB would be agreed upon during the preparation of the Country Partnership Strategy. Thereafter, the funding proposed for each AS project could vary, reflecting the sector and objectives of the AS, provided the aggregate portfolio ceiling is respected. Since then, ceilings have been established for 13 countries, ranging from 80 percent to 99 percent.

IFC's pricing policy for AS has evolved toward requiring greater contributions from the client. The current policy (as of January 2007) establishes the objectives and principles behind the requirement of client contributions: building client commitment, minimizing market distortions by avoiding crowding out private sector provision of services, and targeting subsidies to public goods. In practice, the policy has yet to motivate a significant increase in client contributions.

Monitoring and Evaluation Systems

Until recently, most donors did not subject their AS activities to rigorous M&E requirements. Few donors required project completion reports or ex-post project evaluations, either from the managing unit or from the agency's evaluation department. Even the monitoring of AS for management purposes was made difficult by the fact

Table J.6. Monitoring and Evaluation Systems for PSD AS

Organization	Self-evaluation	Independent evaluation
IFC	Recent introduction of Project Completion Note for AS Recent introduction of activity-based costing	IEG validation of PCRs External evaluations of Facilities are conducted at the request of donors. Some external evaluations of AS activities have been conducted, mainly in the A2F and CA business lines.
AfDB	Technical Assistance Performance Reports (monitoring during implementation) Technical Assistance Completion Reports (evaluation 6 months–1 year after project completion)	Operations Evaluation Dept. evaluations of selected TA projects Occasional Special Evaluation Studies (latest SES on TA in 2007).
EBRD	BAS project evaluations (output indicators) TAM project evaluations (including ratings)	External evaluations commissioned by donors EBRD Evaluation Department evaluation of BAS in 2007 EBRD Evaluation Department evaluation of TAM in 2004
EC	Ex-post evaluations are prepared on an annual basis at the sector level (but PSD is not defined as a “sector”).	Occasional thematic evaluations. Most recent PSD evaluation prepared in 2005.
IDB	Nonreimbursable Technical Cooperation (TC) projects are not currently included in IDB’s Project Performance Monitoring Report System (PPMR) and Project Completion Report (PCR) system. For the Multilateral Investment Fund (MIF), the PPMR system, an annual report on project execution, was introduced in 2000. In general, however, the projects do not have impact evaluations or ex-post evaluations.	Occasional PSD thematic evaluations and MIF evaluations.

Source: Donor interviews and websites.

that AS costs were bundled with other activities, so it was not possible to report on them separately. For donors like EIB who provide AS exclusively for the purpose of preparing and implementing investments, it may not be cost effective to require separate AS evaluations.

Partly because of the efforts of the MDB Evaluation Coordination Group, monitoring and evaluation systems for PSD AS have begun to improve and become more consistent across donors. Most of the multilateral donors, including the IFC, now require a project completion report for TA (table J.6). The main issue with these evaluations is their lack of focus on outcomes. This is due mainly to the fact that the AS project’s performance indica-

tors were mainly output-oriented from the design stage, and usually baseline data is not collected.

Most evaluation departments prepare independent evaluations of PSD activities or AS activities on an occasional basis. Among the better recent reports are the EBRD’s evaluations of the TAM and BAS programs, the IDB’s MIF evaluations, and DANIDA’s recent meta-evaluation of private and business sector development interventions.

Results and Lessons Learned

Findings from recent evaluations

Independent evaluations of PSD AS activities were conducted recently for EBRD, ADB, EC, and

IBRD/IDA. A brief summary of the findings of these evaluations follows.

EBRD Business Advisory Services. A 2007 evaluation of EBRD's Business Advisory Services (BAS) concluded that BAS projects were successful overall, and were consistent with EBRD's transition impact objectives. BAS consultants also have benefited from involvement with BAS, not just financially but also in terms of capacity-building. However, the evaluation found that BAS impacts largely stop at enterprise level, and the population of BAS enterprises is small in the context of national economies. Benefits that accrue to consultants are a by-product of the BAS process and are one-off rather than a targeted exercise in capacity-building.

The evaluation also found that overall true market development activities for the program were scant. Establishing the link between number of projects and market development is hampered by loose program design and lack of verifiable indicators at the outset. When market development did take place, it was not part of a strategic approach to addressing the barriers to consultancy market development.

In terms of demonstration effects, the evaluation found that few BAS projects prove the case for new, innovative or "atypical" types of consulting. In-depth interviews suggested that 87 percent of projects could be thought of as "standard," so they would be unlikely to demonstrate the benefits of new types of services. In addition, most BAS country programs make little attempt to disseminate their results.

EBRD Turnaround Management. The 2004 Turnaround Management evaluation reported that about 1,500 TAM projects were carried out between 1998 and 2002 in all of the EBRD's countries of operations, except Turkmenistan, involving over €96 million in donor funding. The evaluation found that TAM has been highly successful. The majority of the companies visited acted on TAM's advice and made significant changes to their businesses. The vast majority of companies visited reported higher capacity utilization, labor productivity, sales, market share, and profits. Nearly

all the firms assisted agreed that they were materially closer to being profitable, stand-alone private companies than they would have been otherwise. An issue of concern is that TAM is totally dependent on donor funding, and the unreliability of this funding threatens the program's sustainability, constrains its ability to meet the demand for its services, and reduces its efficiency.

ADB Technical Assistance. A 2007 evaluation of ADB's technical assistance in all sectors found that nearly three-quarters of sampled TA projects, in five case-study countries, achieved or exceeded their intended outputs. Executing agencies reported that training had resulted in some improvement in staff performance and that recommendations had been partly acted on.

The evaluation also found that:

- More needs to be done to improve coherence between lending and nonlending activities.
- Serious efforts need to be made to increase country ownership and, in appropriate cases, to delegate more authority and accountability to EAs.
- More needs to be done to recognize in TA operations that there is a wide range of institutional capacity in Asia-Pacific countries and across sectors within countries. ADB's current one-size-fits-all approach to TAs needs to be reconsidered.
- Isolated short-term inputs are not appropriate in such areas as policy reform, change management, and capacity-building. These require longer-term interventions, assistance, or engagement by ADB.
- To improve process efficiency, AS approval and administration procedures could be simplified.
- While there was some evidence of coordination with other funding agencies, in some cases there was also evidence of competition for specific types of AS projects, particularly between ADB and the World Bank.

EC PSD activities in third countries. A 2005 evaluation of the EC's support for private sector development in third countries was quite critical of EC's PSD interventions. It found that: i) program objectives were not systematically geared

toward achieving the objectives stipulated in the EC PSD strategy; ii) key constraints bearing on success were not sufficiently addressed; iii) most meso- and micro-activities lacked sufficient outreach and were not targeted on the most adequate beneficiaries, and, iv) lessons from the past were inadequately taken into account.

AS has generally weak performance on efficiency. There is a lack of transparency regarding how much AS programs cost, whether the benefits justify the expenditure, and whether donors are getting value for money.

IBRD/IDA TA and ESW. The recent IEG-Bank evaluation of the World Bank's TA and economic and sector work in all sectors concluded that most ESW and TA met their stated objectives to at least an average extent, although their effectiveness was greater in shaping Bank lending and strategy than in providing support directly to client countries. The indirect effects of ESW and TA on client countries—through Bank lending—were greater than the direct effects. Between 65 percent and 80 percent of users of Bank ESW and TA in client countries gave ratings of average and above on the extent to which ESW and TA met their stated objectives; between 74 percent and 87 percent of such users in the Bank (task team leaders for loans and strategies) gave such ratings.

In the PSD sector, Investment Climate Assessments (ICAs) were most often named by survey respondents as having informed policies. In Malaysia, changes in the labor law and in the registration of property were attributed to the ICA. It has also led the government to establish a committee to ensure that deregulation and improvements in public service delivery were carried out smoothly. In Serbia, the ICA was credited with the country's regaining momentum in the privatization process and in attracting foreign investment, among other changes. In Guyana, the ICA was cited as having informed the country's National Competitiveness Strategy.

Lessons learned

Some common lessons have emerged from independent evaluations of PSD AS:

- Broader and more sustainable results are obtained from interventions at the macro and meso level rather than the micro level. Firm-level support is low in outreach, which makes it difficult to achieve broader PSD impacts beyond the beneficiary firms.
- Interventions at all levels should be targeted more at local market deficiencies identified by an assessment of the actual conditions. This applies to the policy and regulatory framework, public and private institutions, and markets. Some progress has been made by developing tools for assessing the business environment, but more needs to be done to develop methodologies for assessing the quality of institutions and the functioning of markets.
- Interventions to improve the business environment should be encouraged, as long as there is sufficient government commitment. Support to intermediary organizations can be a way of influencing public policy for the private sector.
- Long- or short-term support within broader programs, leads to better and more sustainable outcomes.
- Despite the fact that there is no one-size-fits-all approach to PSD interventions, it is important to adopt a methodical procedure for selecting areas of intervention in a country, which should at least include the following steps: a critical assessment of the priority areas of interventions, selecting an area in which the donor has a comparative advantage, and an assessment of whether the preconditions for intervening in a given area have been met.
- Assumption of ownership, involvement of local actors, and building of institutions in recipient countries on the basis of the transfer of regulatory, facilitation, and intermediation competencies is a necessary condition for sustainability.

Conclusions: IFC's Relative Strengths and Comparative Advantages

Compared with other donors that provide PSD AS, IFC appears to have the following strengths:

- **Well-designed diagnostics.** The IFC, along with other units in the Bank Group, has been a leader in developing quantitative indicators of the quality of the investment climate, the ease

of doing business, and the ability of firms to access finance. These efforts provide the means of assessing initial conditions in client countries to guide Advisory Services design, as well as allow for evaluation of results. They have been appreciated by client countries and are used by other donors as well.

- **Global knowledge:** The ability to mobilize the best global expertise in specialized areas, along with knowledge of international best practice can be persuasive with clients.
- **Pricing policy:** Although some donors (notably EBRD and ADB) have made progress in defining cost-recovery policies, the IFC is relatively advanced in its thinking in this area.
- **Monitoring and evaluation:** Most donors do a poor job of separating AS from other activities for purposes of monitoring, defining performance indicators for AS, and conducting ex-post evaluations. Although some donors have begun to adopt better M&E systems for AS (again, EBRD and ADB), IFC is probably ahead in implementing the system.

Like most donors, IFC's weaknesses mostly relate to the divergence between strategy and practice. AS are often selected on an ad hoc basis rather than being closely aligned with country and sector strategies. At the same time, synergies across the World Bank Group and with other development partners are not fully exploited. The recently-adopted pricing policy has not resulted in a significant increase in client contributions—the share of projects with a client contribution has increased only slightly since the policy was adopted. And although the M&E system for Advisory Services establishes monitoring, self-evaluation, and independent evaluation processes, the usefulness of the system is limited by the quality of performance indicators being used. As it stands, most indicators measure outputs (at best), not outcomes, and baseline data is rarely collected.

Looking across all types of donors—those that lend and invest directly to the private sector, like

EIB, EBRD, the IDB's IIC, and IFC; those that lend to governments, like IBRD/IDA and the regional development banks; and bilateral donors that do not lend or invest directly—it is possible to propose areas in which IFC may have advantages relative to other donors in the delivery of AS:

- A strong “matrix” of headquarters and field offices that allows for synergies between staff with specialized expertise and those with local knowledge.
- Strong analytical capacity within the World Bank Group, giving IFC a potential comparative advantage in Advisory Services strategy and project design.
- Investment and lending operations that can be linked with Advisory Services, helping to improve the performance of both types of activities (although this is an advantage shared with EBRD, EIB, and the IDB's IIC).
- Ability to take a leadership role in coordinating PSD AS among donors, in part because of its global presence and also because it receives funding from many of the same donors.

The other side of the coin is that IFC does not have a comparative advantage, relative to other donors, in some areas:

- Macroeconomic policy, in which IBRD/IDA, the IMF, and some of the regional development banks have greater analytical capacity and more appropriate instruments.
- Some meso-level interventions, in particular institutional development, for which the regional development banks tend to have a greater understanding of country context and better partnerships with clients.
- Longer-term capacity-building, which many bilateral donors are better able to provide.
- The direct provision of advisory services in countries where markets for these services are relatively well-developed. With the exception of low-income and post-conflict countries, direct support may not add value, can crowd out private providers, and can give beneficiaries an unfair advantage over their competitors.

ENDNOTES

Executive Summary

1. IFC Articles of Agreement: Article 1—Purpose.
2. IEG 2008c.
3. At early operating maturity, operations have generally recorded at least 18 months of operating revenue, which is typically five years after approval.
4. These result patterns across regions and sectors are broadly consistent with IFC's own self-assessments, although with some optimism bias in self-ratings, which were, on average, 5 percent higher than those assigned by IEG.
5. In many country offices, outside regional hubs, IFC Advisory Services staff significantly outnumber investment officers and are the face of IFC in the country.

Résumé Analytique

1. Statuts de l'IFC, Article I.
2. IEG 2008c.
3. Lorsqu'elles atteignent leur régime de croisière, les opérations ont généralement eu au moins 18 mois de recettes d'exploitation, habituellement cinq ans après l'approbation de l'intervention.
4. Ce schéma de résultats dans les régions et les secteurs correspondent en aux évaluations internes de l'IFC, encore qu'on constate un certain biais optimiste dans les auto-appréciations, de 5 % plus élevées en moyenne que les appréciations de l'IEG.
5. Dans nombre de bureaux extérieurs, centres régionaux exceptés, le personnel des services-conseil de l'IFC est en nombre nettement plus élevé que les spécialistes de l'investissement, et c'est l'IFC qui est perçu comme représentant la Société dans le pays.

Resumen Ejecutivo

1. IFC, Artículo 1 del Convenio Constitutivo.
2. IEG 2008c.

3. En general, al vencimiento operativo anticipado las operaciones han registrado no menos de 18 meses de ingresos operativos, lo que habitualmente ocurre cinco años después de la aprobación.

4. Estas modalidades de resultados entre distintas regiones y sectores son en general congruentes con las autoevaluaciones de la IFC, aunque con cierto sesgo optimista en las calificaciones autoadjudicadas, que en promedio fueron 5% más altas que las asignadas por el IEG.

5. En muchas oficinas en los países, fuera de los centros regionales, los funcionarios de servicios de asesoría de la IFC, cuyo número es considerablemente mayor que el de los oficiales de inversiones, son la cara visible de la IFC en el país.

Arabic Executive Summary

- i. المادة الأولى من اتفاقية إنشاء المؤسسة.
- ii. مجموعة التقييم المستقلة، 2008c.
- iii. عند بلوغ مرحلة النضج التشغيلي المبكر، تكون العمليات قد سجلت دخلا من العمليات لا يقل عن 18 شهرا، وهو ما يعني عادة مضي خمس سنوات من تاريخ الموافقة عليها.
- iv. أنماط النتائج هذه عبر المناطق والقطاعات تتسق بشكل عام مع التقييمات الذاتية التي تجريها مؤسسة التمويل الدولية، على الرغم من وجود بعض التحيز المدفوع بلافافول في التقديرات الذاتية، والتي زادت في المتوسط بنسبة 5 في المائة على التقديرات التي منحها مجموعة التقييم المستقلة.
- v. في كثير من المكاتب القطرية، خارج نطاق المراكز الرئيسية الإقليمية، يتجاوز كثيرا عدد موظفي الخدمات الاستشارية التابعين لمؤسسة التمويل الدولية عدد موظفي الاستثمار ويمثلون واجهة المؤسسة في البلد المعني.

Advisory Panel Statement

1. This apparently was the case for 89 out of 289 operations (excluding BEE projects) between January 2007 and January 2008—or roughly one-third of the projects.

Chapter 1

1. For further discussion of the empirical connections between knowledge and development, see World Bank Institute 2008.

2. World Bank database.

3. World Bank database.

4. World Bank database.

5. Again, this figure increases a little if advice in the Financial and Private Sector Development area is included.

6. From the 2007 annual reports of the respective development banks.

AFDB: Private sector approvals in 2007 rose to UA [unit of account] 1 billion (1.67 total approval volume) so the share of private sector investments reached to 60 percent, compared with UA 278.5 million in 2006 (1.05 total volume), or 47 percent of total lending.

ADB: In 2006 ADB adopted a new medium strategy, which places catalyzing private sector investment as its highest priority. In 2007, the private sector operations totaled \$1.7 billion (out of \$10.1 billion), or 17 percent, significantly above recent levels.

EBRD: The private sector share of annual business volume increased to 86 percent in 2007, from 80 percent in 2006.

IDB: During 2007, the IDB approved 17 non-sovereign-guaranteed transactions, consisting of 13 loans and 4 guarantees, totaling \$2.1 billion (out of \$8.97 billion) 23 percent of total lending. During 2006, the Bank approved 20 private sector transactions totaling \$920 million for projects, or 14 percent of total lending (\$6.4 billion). In December 2006, the Board of Executive Directors approved changes to the Bank's basic organization directed at improving the Bank's operational efficiency and capacity to fulfill its fundamental purpose. The changes include the creation of a new Vice President for Private Sector and Non-Sovereign-Guaranteed Operations.

7. World Bank estimates suggest that between 130 and 155 million people fell into extreme poverty as a result of higher food prices.

8. See World Bank 2008c.

9. See World Bank 2008c and 2008d.

10. See, for example, Reinhart and Rogoff 2008.

Chapter 2

1. To some extent this reflects the replacement of existing clients with new clients (rather than necessarily a preference for existing clients).

2. Objectives with trackable data included: whether the project was in an IDA country; in a strategic sector (infrastructure, financial markets, health and education, or agribusiness); or was south-south in nature.

3. The pattern is similar by volume of activities.

4. In line with the MDB good practice standards of the evaluation of private sector investment operations, this review concentrates on the results of projects that were evaluated in the last three years.

5. Self-ratings by investment officers were, on average, 5 percent higher overall than those assigned by IEG.

6. See Independent Evaluation Group 2007b for further details on performance of IFC-supported projects in 2005.

7. Project evaluations in late 2008 have been able to incorporate the possible effects of the crisis in their projections going forward, since these projects were substantially implemented at the time of the crisis (they were approved in 2003), thus the crisis effect is less marked than for projects approved more recently.

8. See, for example, Asian Development Bank 2007a.

9. The evaluated sample was small (six projects), but the ratings were generally consistent with those determined in a recent health sector study carried out by IEG, which also found an improving trend in sector performance.

10. Independent Evaluation Group 2009.

11. See Sharpe, Alexander, and Bailey 1995.

12. IEG evaluates IFC's E&S work quality in a project (appraisal, supervision, and role & contribution) separately from IFC's overall work quality.

13. As opposed to an explicit trade-off between profitability and project development impact.

14. The Asian crisis, for example, can be isolated as a primary reason for the significant deterioration of development, business, and investment outcomes for projects approved in the mid-1990s.

15. Of 37 projects approved in the three years following a crisis in major MICs (Brazil, Indonesia, Korea, Mexico, the Philippines, the Russian Federation, and Turkey), 67 percent achieved high development results (compared with 61 percent otherwise). Projects in Brazil, Korea, and Russia were particularly

successful. In contrast, the performance of the 96 evaluated projects that were already under way when a crisis hit (in Argentina, Brazil, Indonesia, Mexico, the Philippines, Russia, Thailand, Turkey, and Uruguay) were much weaker. Of these projects, 54 percent achieved high development outcome ratings, compared with 64 percent for noncrisis exposed projects.

16. This is the share of active investment approvals between 2005 and 2007 (704 projects with \$20 billion net commitment), relative to the active projects in portfolio in June 2008 (1,716 projects with \$33 billion net commitment).

Chapter 3

1. For further discussion of the empirical connections between knowledge and development, see World Bank Institute 2008. See also Dosi, Teece, and Chytry 1998.

2. See, for example, Lewis 2004. See also Stewart 2002.

3. For a fuller discussion of respective roles of government and the private sector in knowledge generation and exploitation, see World Bank 1999.

4. See Dahlman and Westphal 1981 for more on how markets are imperfect institutional devices for facilitating trading in many kinds of technological and managerial know-how.

5. See Contractor and Nejad 1981, Arrow 1971, and McCulloch 1981.

6. Independent Evaluation Group 2008c.

7. It should be noted that in FY07, IFC's investment commitments made up about a half of MDB financing for private sector operations in developing countries.

8. See International Finance Corporation 2008a and IFC Strategic Directions, FY08–10 and FY07–09.

9. In FY08, IS employed 1,538 staff and 706 consultants. IS consultants also tend to be paid considerably more than those used for AS, implying that they are brought in to carry out tasks that require greater skill and experience.

10. At a more general level, the Global Most Admired Knowledge Enterprises (MAKE) rankings consider and rank organizations according to factors that include organizational learning, innovation, and creation of a corporate knowledge-driven culture. In 2008, McKinsey, Google, and Royal Dutch Shell were the strongest performers. MAKE winners typically outperform their

peers in a number of familiar business indicators, such as shareholder return (by an approximate ratio of 2:1).

11. Prior to this time, organization of AS was somewhat ad-hoc, and dependent on how each facility was set up. In 1997, for example, IFC's AS work was described as being: feasibility and prefeasibility studies; project identification studies; strengthening the enabling environment for private sector development; or capacity building for private businesses and government officials.

12. See Independent Evaluation Group 2007b.

13. Regional facilities and global business units are also referred to as donor-funded operations.

14. Additionally, some business lines have stronger links with Washington. Staff working on Infrastructure Advisory Mandates, for example, tend to have closer ties to Washington and to the investment stream than to other advisory business lines—and projects can sometimes proceed without much engagement with the main regional facility.

15. **Entry**—new products/approaches being introduced/ tested in single clients/single markets with no or limited results measurement to date. IFC also may have limited internal expertise in this product area at entry but must have a senior IFC staff person identified as the leader of this work. Products should not remain in the Entry category for more than 24 months or for two subsequent Product Reviews. Products may move from Entry to In Development, Entry to Other, or Entry to Exit. Products that are currently in the Other category may move to Entry if there is broad implementation or plans to replicate across multiple regions.

In-Development—products that have growing demand, high potential for scaling up and replication across markets, and have some results that provide evidence to continue IFC's investment in and delivery of such products. IFC should have some in-house expertise in this area. Products should not remain in the In-Development category for more than 36 months or for three subsequent Product Reviews. Products may move from In Development to Developed, In Development to Other, In Development to Exit. Some products currently in this category may require longer to mature. In such cases the products should be moved into the Entry category, which did not exist in the original product review. This would give the product up to 5 years to reach Development.

Developed—products that have been scaled up and replicated across at least three regions and have un-

dergone some form of rigorous results measurement activity, such as experimental or quasi-experimental design conducted by an external party. The results support continued work in these areas and new projects should reflect lessons learned in the design. These products should be appropriate for implementation in frontier markets and IFC should have highly experienced, senior staff leading product development in these areas. Products may remain in this category for an indefinite period of time. Products may move from Developed to Exit.

Exit—Products will be moved to the exit category for a variety of reasons. Some may exit as demand and donor/partner interest declines signaling that the key work has been completed, or priorities are shifting to other areas. Similarly, IFC may exit a product when other parties become available to provide the same product as well or better than IFC, or when IFC no longer has sufficient competence in the area (e.g., loss of product leaders/specialists). Other products may be exited based on our inability to achieve desired results, cost recovery and/or scale/efficiency.

Other—This category is for idiosyncratic products that are appropriate to a particular country/market at a given point in time but are not expected to reach scale or be replicated broadly. Products may remain in the “Other” category for an indefinite period of time as long as desired results and cost recovery are achieved and the product is NOT implemented in more than two regions. Applying this definition to current products will result in movement of several products from this category to Entry or Exit.

16. The 1997 IFC Annual Report, somewhat less specifically, defined IFC's AS products as either: feasibility and prefeasibility studies, project identification studies, strengthening the enabling environment for private sector development, and capacity building for private businesses and government officials.

17. Two notable exceptions were IEG reviews of four SME facilities in 2005, and the IEG review of the Private Enterprise Partnership in 2007. The review of the Africa Project Development Facility contributed to the understanding that working directly with a small number of SMEs was relatively costly and that it would generally be more efficient to work with a larger number of SMEs on more of a wholesale basis.

18. Prior to 2006, different facilities and business units had their own, separate M&E approaches and systems.

19. It should be noted that no new approvals are permitted for products placed in the Exit category.

20. See OECD website (www.oecd.org) for full declaration. In September 2008, a High-Level Forum of Ministers from over 100 countries, heads of bilateral and multilateral agencies, donors and many international solidarity organizations was convened in Africa to follow up on the Paris Declaration. Among other things, the forum concluded that aid fragmentation remained a major challenge, and that aid partnerships should be encouraged, in line with the Paris Declaration principles.

21. It should be noted that business line leaders are not invited to take part in developing CASs.

22. Based on a review of publicly available strategies, evaluation reports, and interviews with representatives of the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), the Inter-American Development Bank (IDB), the African Development Bank (AfDB), the European Commission (EC), and the European Investment Bank (EIB)—and two bilateral donors: the U.K. Department for International Development (DFID) and the Danish International Development Assistance (DANIDA).

23. IFC 2008b.

24. Based on expenditures in June 2008, overall leverage of IFC: donor funds was approximately 1:1.5.

25. See Independent Evaluation Group 2007a, for a more detailed discussion of the pros and cons of this funding approach.

26. An example of procedural constraint is the need for a government to tender competitively for a fee-based service, no matter how small in value.

27. Eleven percent in the former, as opposed to 2 percent in the latter.

28. See International Monetary Fund 2008.

29. See, for example, IEG 2007a.

30. It should be noted that the Latin America and the Caribbean region has introduced project approval decision meetings, similar to that used for BEE, involving Bank staff and peer reviewers. This approach has been applied in recent months to the CA and ESS business lines.

31. IEG 2007a.

32. It should be noted that the Infrastructure business leader appears to the exception in this sense.

33. The impact evaluations that have been carried out, or have recently been commissioned, typically had one of two aims: (1) to evaluate pilot projects prior to roll-out and replication, and (2) to evaluate proj-

ects that require testing several approaches to identify which is most effective.

34. The latter has been included as a quality dimension since 2008.

35. IFC's Results Measurement Network's own quality review in early 2008, of supervision and completion documents for projects approved between December 2005 and December 2007, had similar findings: barely half of supervision documents evidenced clear understanding of outcomes and impacts, with persistent problems being a lack of baseline data reporting, limited data tracking, and low use of standardized indicators; and weak data/evidence to support completion report ratings, frequent use of "too early to tell" when outcomes could have been observed, and overly optimistic development effectiveness ratings.

36. Building on this definition and drawing on the good practice standards of official audit and evaluation agencies, four dimensions of evaluation independence have been recognized by the MDB Evaluation Cooperation Group:

(i) *Organizational independence*—It ensures that the evaluation unit and its staff are not under the control or influence of decisionmakers who have responsibility for the activities being evaluated and that they have full access to the information they need to fulfill their mandate.

(ii) *Behavioral independence*—It measures the extent to which the evaluation unit is able and willing to produce high quality and uncompromising reports and to disclose its findings to the Board without Management-imposed restrictions.

(iii) *Protection from outside influence*—This refers to the evaluation unit's ability to decide on the design and conduct of evaluations without interference; its control over staff hiring, promotion, and firing within a merit system; and its access to adequate resources to carry out the mandated responsibilities effectively.

(iv) *Avoidance of conflicts of interests*—It guarantees that current, immediate future, or prior professional or personal relationships and considerations are not allowed to influence the evaluators' judgments or create the appearance of a lack of objectivity. Specific criteria were developed by the Evaluation Cooperation Group to measure the degree of independence along these four dimensions.

37. It is ultimately a decision for IFC management on how to allocate its resources for impact evaluations, but care needs to be taken not to overexamine some topics and leave others underresearched. In an ideal setting, as IEG's *Annual Review of Development Effectiveness 2008: Shared Global Challenges* pointed out, the decision to fund impact evaluations in a given area would take into account the following five criteria: i) the value of answering the question in terms of benefits and costs of a specific project, ii) the value of answering the question for other current or future projects, iii) the cost of the evaluation, iv) the innovative nature of the project, and v) the likely feasibility of designing a convincing impact evaluation.

38. See IEG 2008a for a more detailed discussion of the quality and coverage of M&E systems in IFC, including at the programmatic level.

39. For the full IFC Corporate Scorecard, see IFC 2008a.

40. In the latter case, the development interests of donors (external or internal) and IFC IS are typically well aligned, although as an investor IFC will also need to consider balance sheet impact, which poses a conflict-of-interest risk if such interests supersede development goals.

41. As of January 1, 2009, IFC has its own independent Conflicts Office, which has issued IFC-specific directives and guidelines to address AS/IS business conflicts.

42. Internal IEG document.

43. The PEP-ECA study (IEC 2007a) found a similar pattern.

44. Internal IEG document.

45. See, for example, IEG 2007b.

46. The scope of the review did not extend to private consultancy firms involved in the delivery of knowledge services in developing countries, such as PwC and DAI.

47. These include a one-off look at the AS market in 2007; and benchmarking of IFC linkages operations.

48. For more detail on patterns in official aid flows, see World Bank 2008a.

49. In 21 of 64 cases.

50. The share of projects without development effectiveness and impact ratings is fairly consistent across business lines.

51. A large proportion of ratings of *cannot tell* reflects frequent changes of indicators during project

implementation in most business lines as a result of M&E staff efforts to standardize indicators. It has been observed that task leaders abandoned the initial set of indicators, often set intuitively to reflect the project goals and objectives and adopted newly established standard indicators, which either could not be measured, given that the change occurred during implementation, did not have baseline data, or did not appropriately reflect the goals of the specific project. Although standardization of indicators is desirable, in some cases it led to confused reporting of project results.

52. This issue was first raised in IEG's FY02 annual review, which was completed and submitted to CODE in early 2003, and has been a recurring theme in IEG annual reviews since then. See, for example, IEG 2007b and 2008b.

53. The majority of ESS operations have been managed from headquarters.

54. Seventy-nine percent of BEE operations in high-risk IDA countries, which made up nearly a half of reviewed operations in these countries, were rated high on development effectiveness.

55. Based on IEG and Development Outcome Tracking System data.

56. In these cases, IFC role and contribution was rated high 95 percent of the time.

57. Using t-tests of statistical difference, at a 95 percent level of confidence.

58. It should be noted that size was found to be an important explanatory variable in the case of PEP-ECA.

59. For further elaboration, see IEG 2007a.

60. Other multilateral development banks involved are ADB, AfDB, EBRD, IDB, and the Islamic Development Bank.

Chapter 4

1. These result patterns across regions and sectors are broadly consistent with IFC's own self-assessments, although with some optimism bias in self-ratings, which were, on average, 5 percent higher than those assigned by IEG.

Appendix D

1. IFC 1999, p. 29.

2. The historical likelihood of default as ranked by Moody's for example shows that over a normal five-year period only 0.1 percent of AAA US corporate bonds default (see Credit and Default Risks, available at: <http://personal.fidelity.com/products/fixedincome/risks.shtml>).

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