



The International Finance Corporation's and Multilateral Investment Guarantee Agency's Support for Private Investment in Fragile and Conflict-Affected Situations, Fiscal Years 2010–21

An Independent Evaluation



IEG
INDEPENDENT
EVALUATION GROUP

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Agency's Support for
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Situations, Fiscal
Years 2010–21

An Independent Evaluation

March 11, 2022

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Abbreviations

AMM	ACLEDA Myanmar Microfinance Institution
CAFEF	Conflict-Affected and Fragile Economies Facility
CASA	Conflict Affected States in Africa
COVID-19	coronavirus
DFI	development finance institution
E&S	environmental and social
FCS	fragile and conflict-affected situations
FCV	fragility, conflict, and violence
FDI	foreign direct investment
FY	fiscal year
IDA	International Development Association
IDA18	18th Replenishment of IDA
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IPP	independent power producer
MIGA	Multilateral Investment Guarantee Agency
PRI	political risk insurance
PSW	Private Sector Window
SIP	Small Investment Program
SME	small and medium enterprise

All dollar amounts are US dollars unless otherwise indicated.

Acknowledgments

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The report was peer reviewed by Catherine Martin (World Bank country program coordinator for Nigeria; former principal strategy officer, International Finance Corporation; and senior private sector adviser, Department for International Development), Inder Sud (senior consultant for international development and former World Bank Group director, Cofinancing and Financial Advisory Services Department), and Laure Wessemius-Chibrac (managing director, Stichting NAB, and former managing director, Cordaid Investment Management, the Netherlands). Irene Basile (policy analyst, Private Finance for Sustainable Development, OECD) peer reviewed the approach paper for this evaluation.

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Overview

The private sector can play a critical role in providing jobs and income in fragile and conflict-affected situations (FCS). The World Bank Group Strategy for Fragility, Conflict, and Violence 2020–2025 emphasizes the private sector’s importance in contributing to sustainable development in countries affected by fragility, conflict, and violence (FCV).

The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) are both seeking to scale up their business volumes in FCS. Supporting investments in FCS has been a strategic priority for both IFC and MIGA for more than a decade.¹ More recently, both institutions have adopted corporate targets for their business volume in the most challenging country groupings that include FCS. IFC has committed to delivering 40 percent of its overall long-term finance in International Development Association (IDA) and FCS countries and 15–20 percent in low-income IDA and IDA FCS countries by 2030. MIGA aims to reach a volume of 30–33 percent in IDA and FCS countries by 2023.² Achieving these targets implies an ambitious increase in investment volumes in FCS compared with the level achieved before 2020. However, IFC and MIGA have not differentiated targets for business in FCS countries from the targets combining IDA and FCS countries, making it impossible to assess the extent to which future targets will be achieved within FCS.

FCS countries receive lower levels of private foreign direct investment (FDI). Net FDI flows to FCS have declined since 2012 and currently remain far below official development aid and remittances. Although FCS economies represent 5.8 percent of the developing world’s gross domestic product, they receive only 3.6 percent of FDI flows. This is due to heightened risks and constraints of investing in FCS compared with other developing countries.

This evaluation seeks to inform the implementation of the FCV strategy and MIGA’s and IFC’s commitments to scale up investments in FCS. It builds and expands on recent Independent Evaluation Group (IEG) evaluative work on the role of the private sector in FCS and assesses the effectiveness of IFC’s and MIGA’s support to the private sector in FCS during the fiscal years

(FY)10–21. It draws out findings and lessons to help both institutions achieve their strategic objectives and assesses factors that could influence the scaling up of business volumes and development impacts in FCS.

The evaluation covers all relevant IFC and MIGA activities that directly support private investment in FCS, such as IFC investment and advisory services to private firms and MIGA guarantees. Through its seven country case studies, the evaluation also covers World Bank and IFC interventions with governments that are directly relevant to generating private investments. Finally, the report reflects background research in areas critical to the implementation of the FCV strategy, including staffing and human resources, financial and risk implications of scaling up in FCS, and a qualitative analysis of comparator institutions.

The evaluation covers all IFC and MIGA investments, advisory services, and guarantees committed or approved in an FCS country. However, the concepts used by World Bank Group institutions to define FCS are not fully consistent. IEG identified and analyzed the portfolio using the World Bank Harmonized List of Fragile and Conflict-Affected Situations due to its methodological rigor and to ensure consistency and comparability of data when assessing the three World Bank Group institutions.³ IFC and MIGA have separately adopted a practice of extending the World Bank (harmonized) FCS list by three fiscal years. Finally, both IFC and MIGA track their corporate commitments combining FCS countries and those that are IDA17 (17th Replenishment of IDA) eligible.

IFC's and MIGA's Support to FCS and Its Effectiveness

Over the evaluation period, IFC has incrementally deployed various new approaches and instruments, including some designed for FCS countries. Several initiatives, such as Creating Markets, upstream support, and country diagnostics, were introduced gradually but have not yet matured to a stage where their outcomes could be assessed. Under the IFC 3.0 strategy (IFC 2017), IFC has deployed diagnostic tools including Country Private Sector Diagnostics, IFC country strategies, and the Anticipated Impact Measurement and Monitoring framework. It has implemented new approaches, such as Creating Markets

(which promotes sector reform, standardization, capacity building, and investment opportunities in key sectors) and introduced systematic upstream support (FY20) and de-risking instruments to address financial risks—Private Sector Window (PSW), guarantees, and blended resources (IFC 2016a). Since 2008, IFC has been implementing the Conflict Affected States in Africa initiative, a trust-funded program focused on FCS in Africa. The FCV strategy (World Bank 2020b) flagged several additional adjustments in IFC’s approach to FCS, including (i) a differentiated approach aiming to tailor investment and advisory services to the different needs and capacities of each type of FCS; (ii) increased upstream engagement; (iii) enhanced inclusion and conflict sensitivity; (iv) a portfolio approach; (v) enhanced World Bank Group collaboration; (vi) enhanced risk mitigation, in particular through blended finance solutions including the IDA PSW; (vii) streamlined programmatic approaches; (viii) greater collaboration with other development finance institutions; and (ix) strengthened staff presence and incentives. It is too early to assess the outcomes of many of these recent initiatives introduced under IFC 3.0 and the FCV strategy.

In FCS contexts, MIGA has deployed its political risk insurance (PRI) and only used its nonhonoring insurance product once. During the past 10 years (2010–20), MIGA’s average share of new PRI issued in FCS was greater in FCS than in non-FCS countries. The wider use of nonhonoring insurance is limited by MIGA’s sovereign credit risk requirement (BB– or higher rating) for that product. Furthermore, since FY17 MIGA has not deployed its Small Investment Program, one of its PRI programs, which is intended to provide streamlined support to small and less-complex projects.

MIGA has also adapted its instrument mix in FCS. It created a multicountry Conflict-Affected and Fragile Economies Facility in 2013 with the capacity to increase its guarantee volume in FCS (MIGA 2011) by \$500 million. MIGA’s engagement in FCS is also supported by the IDA PSW through its \$500 million MIGA Guarantee Facility (since FY18). In addition, the existing West Bank and Gaza Investment Guarantee Fund exceptionally allows coverage for local investment, which has met demand, indicating its usefulness as a product extension in an FCS context.

IFC and MIGA have not been able to scale up their business volumes in FCS, despite the introduction of new instruments and modalities for advisory and investment support to FCS countries. The share of IFC's and MIGA's investment volumes in FCS has remained stagnant over the past decade. Over the FY10–21 period, IFC's long-term commitments in FCS have been relatively flat, averaging 5.2 percent of IFC's total commitments and 8.6 percent of projects. MIGA's volume of guarantees has also remained flat, averaging 9 percent of its overall guarantee volume and 17 percent of projects. Although neither institution is yet on a growth trajectory for its business in FCS, their ability to maintain the relative share of business volumes contrasts favorably with the declining flows of FDI into FCS countries over the same period.

A shortage of bankable projects that meet IFC and MIGA standards and criteria, more so than the availability of finance, is the key constraint to scaling up business in FCS. IEG's analysis finds that the supply of bankable projects is limited by financial and nonfinancial risks. Nonfinancial risks include those arising from weak governance, uncertainty, underdeveloped regulatory regimes, poorly functioning institutions, and market characteristics of most FCS countries. They also include risks related to environmental and social (E&S) and governance and integrity due diligence issues.

MIGA's business in FCS depends largely on the demand for PRI and non-honoring products, which is driven by the supply of foreign investments. Its business model allows little scope for creating markets or developing projects, as MIGA's product depends on demand from investors or financiers for risk mitigation, indicating the scope for synergies with IFC and the World Bank that engage in creating markets and upstream activities.

The largest blended finance instrument that IFC and MIGA have deployed to mitigate financial risks in FCS is IDA's PSW. The PSW is intended to mobilize private investments in underserved sectors and markets in the poorest and most fragile IDA countries. It is designed to de-risk investments to make them more commercially viable or to limit IFC's or MIGA's own exposure to project risk. PSW has a robust process to determine the subsidies needed to make IFC and MIGA projects more commercially viable, emphasizing minimum concessionality.

However, the PSW has not led to an increase of business volume in PSW-eligible countries during IDA18 (18th Replenishment of IDA). PSW participation had positive effects in allowing IFC and MIGA to enter new markets or sectors. But IFC's and MIGA's usage of the PSW has been well below the original IDA18 allocated amounts. Most approvals occurred in the final quarter of FY20, coinciding with the Bank Group's coronavirus (COVID-19) crisis response. Factors contributing to the limited usage of the PSW include strict eligibility criteria, limited pipeline, the longer gestation period for projects, and the start-up of PSW in IDA18. Another factor is that the PSW is designed to de-risk IFC and MIGA financial risks but not the nonfinancial risks and constraints limiting the supply of bankable projects in high-risk markets (World Bank 2021b).

Despite the challenging business environment and constraints in FCS, evaluated IFC projects perform almost as well as those in non-FCS, particularly infrastructure projects and larger investments in larger economies. IFC's development outcome ratings in FCS have been somewhat below those in non-FCS countries (46 percent in FCS versus 53 percent in non-FCS). The performance of IFC projects was driven by well-performing infrastructure projects, large investments in large economies, a high quality of clients, and engagements with repeat clients. Although projects with repeat clients performed well, ensuring additionality in follow-on projects with established sponsors remains a challenge.

MIGA's projects in FCS performed better than those in non-FCS countries (73 percent versus 63 percent). These results are driven by well-performing projects in the agribusiness, manufacturing, and services sectors. High outcome ratings also reflect MIGA's work with strong clients—as foreign investors tend to be better capitalized, with a larger asset base and diversified revenue sources compared with local firms. However, the MIGA FCS projects supported by the Small Investment Program—an instrument deemed highly relevant to MIGA's engagement in FCS—are not routinely evaluated by IEG or MIGA.

E&S and gender objectives are important aspects of IFC's and MIGA's value addition with their clients due to weak public and private capacity in FCS and their link with sustainability and inclusion. E&S issues encountered in FCS countries are largely driven by the characteristics of the sector and project,

rather than by issues related to FCS. Nonetheless, FCS projects were rated below non-FCS projects on E&S. The main factor affecting E&S performance is sponsor commitment and capacity, which must be carefully assessed as part of IFC's and MIGA's client selection, and strengthened through technical assistance. IFC's focus on gender issues is reflected in various corporate policies and strategy documents. Expanded advisory services were important to engage a few IFC clients on gender issues, as in the Solomon Islands and Mali.

Implementing successful projects in FCS goes beyond their direct impact and demonstration effects. Among the country and project cases reviewed in depth, most projects contributed to private sector development, including evidence of increased private investment beyond that facilitated by IFC and MIGA, development of local markets, and strengthening of corporate governance.

In some cases, such private sector development effects have been observed at the sector level and beyond; in other cases, demonstration effects were limited. Long-term programmatic engagements involving a series of advisory and investment services and collaboration within the Bank Group have supported such private sector development effects. For instance, the Bank Group's joint implementation plan for the power sector in Myanmar facilitated dialogue and decisions that enabled the three Bank Group institutions to operate and promote reform and investments. However, evaluative evidence also showed limited demonstration effects in some cases given the small size and the insular nature of projects relative to the needs of the country or sector. Overall, limited data were available on sector or country effects beyond project development outcomes, and no information was available on resilience and conflict sensitivity.

Private sector activity and investment has likely been affected by the increase in fragility and conflict during the past decade, which have been exacerbated by COVID-19. There has been an increase in violent conflict, forced displacement, and subregional fragility and conflict, and several countries have experienced recent reversals in progress to address FCS vulnerability. This increase in fragility has likely constrained cross-border investment and affected local private sector activity. COVID-19 has exacerbated these trends with likely knock-on effects on IFC's and MIGA's portfolio in FCS.

Factors and Trade-Offs Influencing the Scale-Up of Business in FCS

The evaluation identifies seven discrete factors that have affected IFC's and MIGA's ability to scale up their support to FCS and that may address the limited supply of bankable projects. These are country constraints, availability and quality of clients, upstream engagements and advisory services, cost of doing business, risk and risk management, collaboration within and outside the Bank Group, and incentives. Although IFC and MIGA have made progress on each of these factors, increasing investment beyond the FCS economies already receiving IFC and MIGA support will involve trade-offs among the various factors, such as accepting higher costs and longer time frames to facilitate the diversification of their client bases. This could affect IFC's and MIGA's bottom lines. The availability of alternative financing instruments to subsidize some of the up-front costs could make this more acceptable to their sponsors and shareholders.

The following links and trade-offs among the different factors emerge from the evaluative evidence and provide insights for IFC's and MIGA's future engagements in FCS countries:

- » **Country characteristics and constraints:** Variability in country characteristics and constraints points to the need for differentiated strategies and approaches adapted to country conditions, based on diagnostic work on the key constraints and opportunities to diversify and scale up the portfolios—building on existing initiatives such as Country Private Sector Diagnostics, IFC's country strategies, and Country Partnership Frameworks.
- » **Client quality and availability:** The limited number of clients that are able and willing to meet IFC's and MIGA's standards, combined with modest FDI flows to FCS, imply a need for IFC and MIGA to broaden their client bases to reach and build up the capacity of local and regional private investors and to accept higher risks and costs, and longer time periods to enable gestation of bankable projects.
- » **Upstream engagements and availability of advisory services:** In the absence of available international investors and project sponsors, upstream

engagement and advisory services can be instrumental in identifying eligible local sponsors and building client capacity using blended finance and other instruments to facilitate deal flow in FCS countries.

- » **Cost of doing business:** Expanding business in FCS will require greater resources. IFC's and MIGA's cost of doing business is 2.5 times higher in FCS countries than in non-FCS countries, with smaller average investment sizes and longer processing times, which are disincentives for building an FCS pipeline. The resource intensity stems from the need for increased project preparation and capacity building for clients, staff presence, and the longer time horizons required for project gestation.
- » **Implications of financial and nonfinancial risks:** Investing in high-risk countries involves a trade-off with IFC's overall portfolio risk-reward balance and financial results. Such investment may require reconsidering the risk-bearing capacity in FCS at the corporate level to better align it with the objectives of increasing business volumes in these countries. Beyond the financial implications of credit risk, scaling up in FCS is constrained by nonfinancial risks arising from poor regulatory and policy environments and reputational risks related to E&S and governance and integrity due diligence issues.
- » **Internal and external collaboration:** Bank Group-wide collaboration and collaboration with external partners have helped address the multiple needs of countries emerging from protracted conflicts, reduce high business risk (including weaknesses in the business environment), and facilitate investments.
- » **Incentives and staffing:** Weak staff incentives have been a constraint to expanding IFC's footprint and increasing its investments in FCS countries. IFC has sustained its country presence of staff working in FCS with substantial support from staff working from nearby hubs. Although recognition of staff contributions to high-impact projects in FCS has increased, this could be complemented by greater incentives for career growth for staff who have worked in or on FCS countries.

These findings indicate that scaling up in FCS would involve further recalibration of IFC's and MIGA's business models in FCS. Private sector development and support of private investment in FCS remain challenging and require experimenting, piloting new approaches and instruments, and learning by doing. The evaluation concludes that changes to IFC's and MIGA's

business models (including risk tolerance, cost structure, and institutional incentives and culture) may help them overcome the existing shortage of bankable projects in FCS countries. These changes may involve identifying new types of clients; adjusting the instrument mix to downscale and reach local or less-sophisticated clients; working with experienced clients from neighboring countries; accepting longer gestation periods for projects; and moving the engagement model toward more proactive upstream work on project development, project preparation, and sector and policy reform. In addition, new institutional arrangements and modalities such as partnerships with grassroots organizations, blended finance solutions, or trust funds could be deployed to help manage the risks and cost of doing business, address capacity-building needs, and accommodate the longer time periods required for project development and gestation.

Finally, IFC and MIGA could complement the use of corporate volume targets in FCS with targets for the number of projects or other suitable metrics to measure their contribution to inclusive growth of the private sector in FCS. Corporate volume targets, adopted by Bank Group institutions and many development finance institutions, create an incentive to prioritize large-scale projects at the expense of smaller projects in more challenging markets. Some comparator institutions have moved to complement volumetric targets with indicators such as the number of projects or broader private sector development indicators that provide incentives for working in FCS. Such incentives could also be adopted by IFC and MIGA to enhance their development contribution and project pipeline in underserved FCS, such as small island developing states. Nonetheless, given the smaller size of projects in these states and other disadvantaged FCS, their contribution to the overall volume targets in FCS is likely to remain modest. Adjustments in performance metrics may enable IFC and MIGA to set more realistic targets for their engagements in FCS and incentivize expansion to frontier markets.

Recommendations

Based on these findings and conclusions, IEG makes the following recommendations to strengthen the relevance and effectiveness of IFC's and MIGA's support to investments and private sector development in FCS:

Recommendation 1: IFC and MIGA should continue to review their financial risk, make more explicit the implications of IFC's portfolio approach for FCS, and enhance capabilities to address nonfinancial risks to ensure they align with achieving business growth targets and impacts in FCS. Increasing investments and guarantees in FCS countries involves trade-offs between IFC's and MIGA's risk tolerance and financial results as they strive to fulfill their dual mandate of development effectiveness and financial sustainability. IFC and MIGA should continue to periodically assess the risk frameworks, models, capital requirements and financial implications fully support the business growth objectives and targets of the institutions in FCS. Building on experience to date, IFC should also make more explicit the risk-reward trade-offs and implications for investments in FCS in the context of its portfolio approach. The portfolio model followed by some impact investors of accepting low(er) returns in FCS markets may provide helpful lessons for IFC's portfolio approach. Finally, IFC and MIGA should assess, and where needed, strengthen their capacity to address nonfinancial risks, as they are a key constraint to developing bankable projects in FCS.

Recommendation 2: To focus on the development of bankable projects, IFC and MIGA should further recalibrate their business models, client engagements, and instruments to continuously adapt them to the needs and circumstances of FCS and put in place mechanisms to track their effectiveness for real-time learning.

- » To address the shortage of bankable projects, IFC will need to shift its business model more fully toward upstream project development and identify new clients as the norm in FCS. This can build on IFC's existing upstream and advisory work, with close coordination among IFC, MIGA, and the World Bank on country diagnostic work and coordinated action to address constraints and leverage investment opportunities.

- » MIGA should continue to enhance collaboration with the World Bank and IFC on diagnostic and upstream work to fully exploit synergies with IFC's and the World Bank's creating markets activities. MIGA can also make the full use of its toolbox (including the Small Investment Program), build capacity among less-experienced clients in FCS, and explore the design of future trust funds to expand coverage in areas outside the MIGA Convention, for which there is demand from local investors.
- » To address the resource implications of scaling up in FCS, IFC and MIGA should consider enhanced partnerships with nontraditional investors and social enterprises or possible use of IDA funding to cover the up-front cost of developing the private sector and project preparation in FCS.
- » To ensure effectiveness of existing and nascent instruments and approaches to enhance the pipeline of bankable projects, as a priority, IFC and MIGA should put in place mechanisms to track implementation and effectiveness of these initiatives for real-time learning and course correction.

Recommendation 3: IFC and MIGA should identify and agree on FCS-specific targets in their corporate scorecards to focus their efforts and track progress in implementing the Bank Group FCV strategy for the private sector. The current use of key performance indicators co-mingling low-income countries with IDA and FCS country groupings may dilute the focus on FCS and FCS-specific topics. Harmonizing World Bank, IFC, and MIGA definitions of FCS and using a single FCS list would be a precondition for setting targets that are clear, transparent, and comparable across the Bank Group.

¹ International Finance Corporation strategies have had a focus on fragile and conflict-affected situations (FCS) countries since at least 2009, adopting a special FCS strategy in 2012, while the Multilateral Investment Guarantee Agency (MIGA) has identified conflict-affected countries as a strategic priority since 2005.

² MIGA's target for fiscal years 2021–23 (FY21–23) combines FCS countries and those that are IDA17 (17th Replenishment of International Development Association) eligible.

³ For the list of FCS countries, see appendix D and <https://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations>.

Management Response

International Finance Corporation and Multilateral Investment Guarantee Agency Management Response

International Finance Corporation's (IFC) and Multilateral Investment Guarantee Agency's (MIGA) managements thank the Independent Evaluation Group (IEG) for the report *The International Finance Corporation's and Multilateral Investment Guarantee Agency's Support for Private Investment in Fragile and Conflict-Affected Situations, Fiscal Years 2010–21*. This evaluation topic is highly relevant, considering IFC's and MIGA's ambitious targets in fragile and conflict-affected situations (FCS) and International Development Association (IDA) countries, as outlined in the 2018 capital increase package of IFC, and the World Bank Group fragility, conflict and violence (FCV) strategy for fiscal years (FY)20–25. It also presents an opportunity to reflect on IFC's work in FCS to date and to inform implementation of IFC 3.0 and the FCV strategy. For MIGA, support for FCS has been an important area of concentration in its series of strategies, and is one of the strategic focus points of its strategy and business outlook (SBO) for FY21–23.

IFC and MIGA managements appreciate the engagement with IEG teams during the review of the draft report. Management would like to highlight that the extremely tight turnaround for IFC and MIGA's corporate review and the formulation of the management response has put a significant strain on IFC and MIGA, which is very unfortunate for an evaluation of such strategic importance.

Management also notes that management and IEG collectively committed to the reform of the Management Action Record last September. IEG recommendations backed by solid evidence play a critical role in influencing the Bank Group's directional change to contribute to outcomes that matter. Selectivity in recommendations and alignment with strategic priorities were among other key principles of the reform. These reform principles could have been better applied to the recommendations of this evaluation.

International Finance Corporation

Management Response

Overall, IFC management finds that the report presents an informative summary of IFC's performance in FCS contexts, including investment, advisory, and development effectiveness results and their underlying drivers. The report also draws out useful observations and findings that confirm IFC's approach to scaling up business in FCS markets. In fact, as highlighted in the report, IFC has already begun implementing measures aligned with those proposed by IEG, beginning with the adoption of the IFC 3.0 Creating Markets Strategy, the institutionalization of the upstream business model, and the Bank Group FCV strategy.

For example, IFC management agrees strongly with the report's assessment that the ability to substantially increase investments in FCS countries requires continuous recalibration of the business models and development of new tools and approaches. Along those lines, IFC has recalibrated its business model and deployed several new approaches and instruments that have been either specifically developed for or adjusted to respond to the challenges of operating in FCS markets. In addition to those summarized on in the overview of the report, the following should also be considered:

- » Institutionalization of IFC's systematic approach to upstream project development and market creation, particularly in FCS and IDA countries, including dedicated staffing, differentiated incentives, and modified targets to encourage delivery of higher-risk, and long-gestation programs.
- » New diagnostic tools, such as Country Private Sector Diagnostics (CPSDs) and IFC Country Strategies. A guidance note on incorporating FCS considerations into private sector diagnostics is in development.
- » Launch of the Anticipated Impact Measurement and Monitoring framework. This framework was modified in FY20 to apply FCS considerations and weighting to projects in FCS.
- » New risk procedures, including (i) the FCS and IDA Risk Envelope—an allocation for high-impact projects beyond IFC's standard risk tolerance; and (ii) the Contextual Risk Framework—a key diagnostic framework used to better

understand country context, risks, and fragility drivers to inform strategy and operations in FCS markets.

- » The IDA Private Sector Window (PSW) and other blended finance resources, which use concessional financing to help rebalance risk-return for high-impact first-of-their-kind projects in FCS. These tools have been either specifically developed for or adjusted to respond to the challenges of operating in FCS markets. With respect to the slow deployment of the PSW, significant progress has been made since the 18th Replenishment of the International Development Association, as noted in the management comments on the recent IEG evaluation of performance on the PSW. PSW deployment has increased, reaching \$496 million out of the 19th Replenishment of the International Development Association by the end of FY21, and the pipeline for the Replenishment exceeds the envelope allocation of \$1.3 billion.
- » Explicit recognition of the priority to increase private equity and venture capital funds in IDA and FCS markets under IFC's equity strategy.
- » New platforms, including the Conflict-Affected States in Africa (CASA) initiative, an important, innovative program to enable IFC's engagement in African FCS countries. CASA is a donor-funded, IFC-implemented platform that supports IFC's advisory projects across 13 African countries. It has facilitated investment climate reforms; advised close to 3,000 companies, government agencies, and other entities; has supported over 115,000 farmers; and helped mobilize investments of more than \$942.4 million into FCS markets.
- » The CASA Initiative has supported the growth of IFC's footprint and broader private sector development activities in FCS countries through three key pillars: funding IFC advisory services projects, provision of operational support in the field to AS projects and investment operations, and knowledge management. Moreover, CASA was independently reviewed by both IEG (in the first quarter of FY21) and an external reviewer, and received a very positive assessment, indicating that the flexible financing mechanism, support in the field, and innovative thought leadership contribution, have been a catalyst to success in FCS countries.
- » Enhanced focus on staff learning, with a dedicated course on tools for investing in FCS and low-income countries (LICs), aimed at presenting the range of

IFC tools and instruments available to staff working in these environments. To date, over 80 staff have been trained.

Besides the strategic placement of the new tools and resources, IFC management has also implemented an organizational realignment specifically designed to increase management attention for FCS operations. Notably, IFC (i) split the Africa region into three subregions, adding a third regional director; (ii) created a new Regional Vice Presidency covering the Middle East, Central Asia, Turkey, Afghanistan, and Pakistan; and (iii) integrated a part of the World Bank's Equitable Growth, Finance, and Institutions Global Practice back into IFC's operations. The latter aligned resources and expertise in support of IFC 3.0, including the expansion of the IFC Upstream program, and aims to enhance the development impact of Equitable Growth, Finance, and Institutions projects, while keeping collaboration and coordination with the World Bank in specific areas, including diagnostics such as CPSDs. Although full benefits of these changes are yet to be seen as the report indicates, IFC management is confident that the new configuration will allow us to enhance our support for FCS countries.

IFC management understands that ramping up operations in the most challenging markets requires sustained effort and a dedicated shift in resources. As stated in the FY22–24 IFC SBO, as the pandemic unfolded, IFC saw initial higher levels of demand from middle-income countries, after the evolution of the health and economic crisis, with IDA FCS countries leading use of short-term finance (STF) instruments. IDA FCS is a core priority for IFC, and IFC is redoubling its efforts to grow the IDA FCS pipeline and deploying the full range of instruments. We are beginning to see growing demand for long-term finance (LTF) in IDA and FCS markets, including 48 percent of Upstream pipeline in 17th Replenishment of the International Development Association (IDA17) and FCS, and \$5.3 billion in IFC's LTF investment pipeline to support IDA17 and FCS as of the end of FY21. For FCS specifically, FY21 saw robust aggregate IFC delivery (including STF, LTF, and mobilization) at \$4 billion (see the "IFC investment volumes in FCS" section and figure MR.2).

Enabling environment for the private sector in FCS markets: In committing the Bank Group to scale up its efforts in FCV environments, the Forward

Look and the Bank Group FCV strategy recognized that progress on the policy and regulatory reform agenda is a critical condition to maximizing finance for development and unlocking private sector activity. At the heart of this is the Cascade approach—the shared understanding that Bank Group institutions must work together to put in place Upstream reforms to address market failures through country and sector policies, regulations and pricing, and institutions for private sector activity to grow. Although there has been considerable progress on this front, particularly in FCS countries through joint work on CPSDs, IFC Country Strategies, Country Partnership Frameworks, Upstream work and Development Policy Operations, and the implementation of the IDA PSW, more needs to be done to improve policy and regulatory frameworks to unlock the private sector in FCS markets. As envisioned in the Approach Paper, it would have been beneficial if the report had analyzed how the work in this area had progressed through the Cascade approach, and enabled IFC (and MIGA) to catalyze private investment and supported this agenda to date.

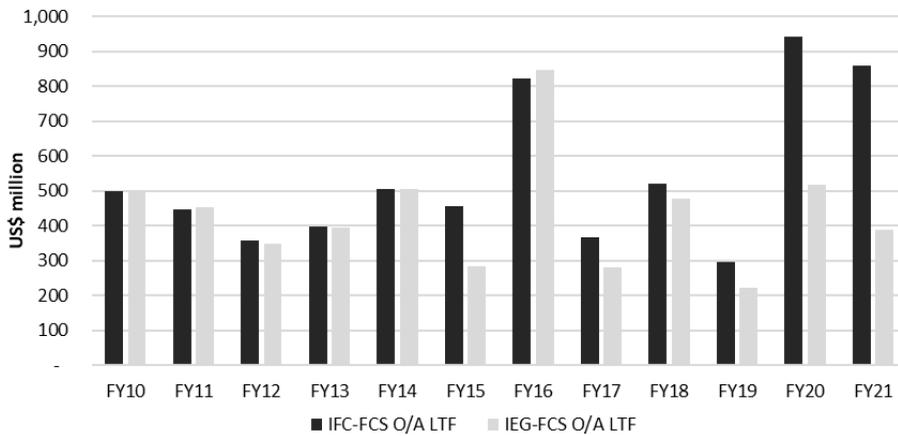
IFC investment volumes in FCS: IFC management thanks IEG for their explanation of the differences in the categorization of FCS markets used by IEG and those employed by MIGA and IFC for operational and reporting purposes.¹ In particular, appendix G “IFC and MIGA Portfolios” is very helpful. As mentioned, the differences between IFC and IEG’s analysis (see figure MR.1) arise primarily from the following:

- » Differences in the definition of FCS. IEG uses the World Bank’s harmonized list prior to FY20, and the list established by the Bank Group FCV strategy from FY20. IFC extends the list by including countries that graduated from the World Bank list in the past three years. The rationale for the approach is associated with IFC’s strategic intent to support projects in countries that may be transitioning through to graduation from FCS status, when conditions are still fragile and there are still considerable political and economic uncertainties, and
- » The treatment of regional and global projects in the IFC FCS portfolio. For added transparency, figure MR.1 below provides a breakdown of IFC own-account LTF commitments in FCS using IEG’s methodology and that used by IFC in reporting. According to IFC’s data, IFC reached record investment

volumes—\$942 million and \$861 million of own-account LTF commitments in FY20 and FY21, respectively. In FY20 and FY21 alone, the gap between IEG and IFC's data totaled \$898 million, with \$521 million attributed to regional projects, \$246 million attributed to FCS definitional differences, and the rest attributed to other factors including differences in data sources and the definitions of STF and LTF.

Beyond the methodological differences, however, IFC management is concerned that the report understates the magnitude of IFC's delivery in FCS countries over the period by failing to aggregate IFC commitment volumes across all business lines—own-account LTF and STF, and mobilization. Cumulatively, over the period FY10–21 IFC invested over \$22 billion in FCS markets (figure MR.2). In addition to the \$6.5 billion in own-account LTF, IFC mobilized \$7.9 billion for FCS countries, achieving a mobilization ratio of 1.06 times. STF has been a critical vehicle for IFC's support to FCS clients, with \$8 billion deployed over the period. Measuring only IFC's investment commitments in FCS also may not do justice to reflect IFC's full engagement in FCS since advisory and Upstream work are often most relevant interventions for the most fragile countries. Advisory services play a critical role in IFC's delivery in FCS by initiating the work on policy and regulatory reforms together with the World Bank, and the public and private sector players. IFC's expenditure over FY10–21 has amounted to \$505 million. IFC management fully agrees that more work needs to be done to scale IFC's delivery in FCS and to keep IFC on the trajectory to meet the 2030 capital increase targets. However, an increasing trend is clear despite the operational challenges related to the coronavirus (COVID-19) and unprecedented levels of setbacks and increased conflict and fragility. Many FCS markets experienced conflict and fragility in the past two years leading, in some cases, to suspension of Bank Group's operations. Other multilateral development banks and development finance institutions trying to focus on FCS find similar business development constraints.

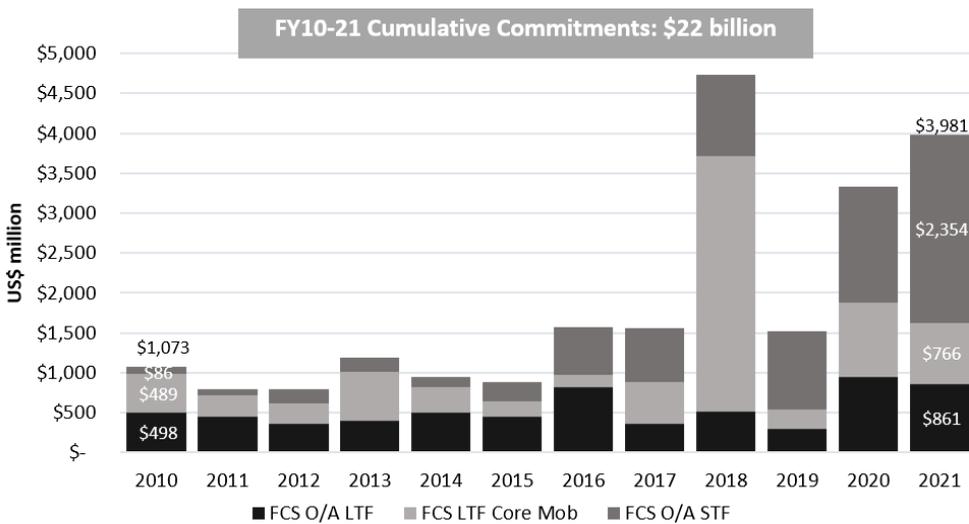
Figure MR.1. IFC Own-Account Long-Term Finance Commitments over FY10–21: IFC Reported versus IEG Reported



Source: International Finance Corporation

Note: FCS = fragile and conflict-affected situations; IEG = Independent Evaluation Group; IFC = International Finance Corporation; LTF = Long-Term Finance; own-account = own-account

Figure MR.2. Aggregate IFC FCS Commitments (Own-Account LTF, Core Mobilization and STF)



Source: International Finance Corporation

Note: Core Mob = Core Mobility; FCS = fragile and conflict-affected situations; IEG = Independent Evaluation Group; IFC = International Finance Corporation; LTF = Long-Term Finance; own-account = own-account; STF = Short-Term Finance

Incentives and staffing: IFC welcomes the report's focus on incentives and staffing. Increasing staff presence both in and near FCS locations is an integral part of the implementation of the FCV Strategy. In recent years, IFC has taken deliberate steps in this direction, including increasing the number of staff based in FCS locations from 89 in FY19 to 147 as of the end of FY21, and growing the number of offices in FCS markets from 18 in FY19 to 24 as of end of FY21. In FY19–21, IFC opened 8 new offices in Sub-Saharan Africa, of which 5 were in FCS. IFC's Corporate Awards continue to be an effective tool in recognizing the significant contributions of staff in challenging FCS projects across the institution. Recognizing staff working in FCS has been a key focus of these awards: in FY20, approximately 35 percent of the awards were given to teams working on projects in FCS locations. Similarly, of the 30 staff who received IFC Top 30 Individual Corporate Awards in FY20, 13 (or 43 percent) had worked on projects related to or in FCS locations. Given the importance of upstream work in FCS locations, IFC's new Upstream Milestone Awards recognize noteworthy efforts and achievements in upstream projects: major external milestones, conversions from upstream effort to mandated investment projects, disciplined project droppage when appropriate, and collaboration across departmental lines that goes above and beyond traditional joint projects. IFC's Human Resources Strategy FY20–22 puts forward the following priorities: (i) cultivating a high-performance culture in alignment with corporate and individual objectives; and, (ii) facilitating career frameworks, recognition, and financial rewards (including through awards programs) in alignment with the Bank Group FCV strategy. Although designing appropriate incentives for staff to work in FCS can be challenging, IFC management will maintain efforts to adapt our incentives to driving behaviors that will increase the effectiveness and engagement of all IFC staff, ultimately leading to better operational delivery—especially in priority markets—and successful implementation of IFC 3.0.

Cost of doing business: IFC management appreciates IEG's analysis of costs incurred to IFC for FCS engagement. Indeed, higher expenses, such as greater operating costs for appraisal and supervision, may disincentivize building the FCS pipeline. Although IFC management agrees with the overall message that the costs are indeed high, IFC uses a different methodology than IEG for assessing the cost of doing business in FCS. As such, IFC management

cannot verify the numbers presented by IEG, which limits IFC’s ability to comment on some of IEG’s analysis. However, IFC management does closely monitor the cost of doing business in FCS and would be open to learning more details of IEG’s methodology.

Recommendation 1: IFC and MIGA should continue to review their financial risk, make more explicit the implications of IFC’s portfolio approach for FCS, and enhance capabilities to address nonfinancial risks to ensure they align with achieving business growth targets and impacts in FCS. In principle, IFC management agrees with the recommendation to continue to review financial risks, to make the implications of IFC’s portfolio approach for FCS more explicit, and with the need to address non-financial risks to ensure they align with achieving business growth targets and impacts in FCS markets. In line with these efforts, IFC adopted the Portfolio Approach to strike the balance of lower-risk projects and a higher-risk-adjusted return and more IDA and FCS exposure where risk-adjusted returns on capital for loans are significantly below IFC average. IFC’s Portfolio Approach aims to achieve high development impact and financial sustainability over the portfolio as a whole, allowing the corporation to take greater risks on individual investments while managing the overall balance sheet. Anticipated Impact Measurement and Monitoring, the quantitative metric for measuring development impact—alongside an agreed financial sustainability metric, risk-adjusted return on capital—underpins the Portfolio Approach, allowing IFC to make its traditional balancing of development impact and financial sustainability in a more refined, consistent, and transparent manner. IFC management is also aware of the high nonfinancial risks that impact IFC’s investments in FCS and has developed a range of tools to create greater awareness of these risks and mitigate them, including the Contextual Risk Framework, expanded Environmental and Social advisory services and enhanced approaches to addressing conflict sensitivity in private investments. Although it may be too early to assess their effectiveness since many of these tools are new or have been expanded or enhanced recently, IFC management is committed to continued implementation of these efforts and will continue to report the progress on respective reporting platforms.

Recommendation 2: To focus on the development of bankable projects, IFC and MIGA should recalibrate their business models further, cli-

ent engagements, and instruments to continuously adapt them to the needs and circumstances of FCS and put in place mechanisms to track their effectiveness for real-time learning. IFC management agrees on the spirit of the recommendation that an intentional and measurable approach to developing bankable projects in FCS is of paramount importance. The recognition that a proactive approach to both creating markets and facilitating bankable projects to attract new private investment in strategic sectors has been at the heart of the IFC 3.0 Strategy. This strategy is designed to support growth and job creation, especially in FCS markets with the importance of increased focus on early-stage engagements and collaboration across the Bank Group. To that end, IFC has been embarking on several initiatives.

- » First, it launched its intentional approach to project development—IFC Upstream. IFC Upstream fits in a seamless continuum that seeks to harness Bank Group-wide engagement to create markets and mobilize private capital. The World Bank strengthens the investment environment of client countries and IFC supports private sector development; IFC Upstream connects these activities by creating a line of sight to bankable investments and mobilization. IFC has embedded this approach into the organizational structure, including the creation of global and regional upstream units that are fully integrated into IFC industries. Staffed with some of IFC's most experienced personnel, including new dedicated hires for IFC Upstream, the upstream units draw on a range of diagnostic tools to help IFC identify, assess, and prioritize new market creation opportunities. Upstream has also employed a robust governance structure to ensure resources are efficiently allocated and activities are strategically aligned. For example, the Quarterly Upstream Pipeline Review Meetings (37 held in FY21) allow for continuous and dynamic prioritization of resources with appropriate project redirection in real time. Also, timely action and quality reporting on project droppages are systematically governed to learn project specific lessons related to country, sector, project design, and management. As of June 30, 2021, 48 percent of the Upstream own-account pipeline was in IDA17 and FCS and 20 percent in LIC-IDA17 and IDA17-FCS.
- » Second, through a Funding Needs Assessment process, which has engaged the institution in a strategic planning process ensuring that IFC aligns its fundraising targets with strategic priorities and 2030 commitments, IFC

management repurposed its country-driven budgeting approach, integrating the country-driven budgeting already in place for Upstream and the Funding Needs Assessment into a single exercise covering both upstream and advisory, enhancing the links among strategy, resources, and operational delivery. Country and Regional planning ensures strategic priorities drive activities and enable close collaboration with the World Bank. Also, to address the resource implications of scaling up in FCS, IFC is enhancing partnerships with nontraditional investors such as the Rockefeller Foundation to advance distributed renewable energy solutions in Sub-Saharan Africa and select other regions to work with Upstream on project preparations for private sector clients and governments. Another strategy to reduce costs while creating more opportunities is for IFC to co-invest with private sector clients to prepare, advance, and develop projects. Under the new Collaboration and Co-development Upstream tool, IFC can provide early-stage risk funding and undertake joint work with prospective private sponsors and companies through cost-sharing of specific limited scope studies in return for certain future co-investment rights or financing rights. Such early project development via Collaboration and Co-development is expected to deliver on more South-South and regional cooperation in FCS and LICs, especially in the real sector economy.

- » Third, IFC continues to evolve its tools, instruments, and ways of engaging with clients. As mentioned earlier, IFC management launched a number of tools that are either focused or adapted to the FCS context. For example, IFC launched the Africa Fragility Initiative, a five-year program to support delivery of responsible private sector development in 32 countries in Africa. Africa Fragility Initiative is the successor and builds on the experience of IFC's CASA Initiative, which ran from 2008 to 2021, and it will provide flexible and catalytic funding, a presence in the field, and strategic collaboration. Finally, IFC continues to identify new and innovative approaches such as the recently established Risk Institute, an initiative led by the IFC Credit Department in collaboration with regional investment teams. The Risk Institute is designed to deliver sector- and region-specific workshops targeting finance executives of Small and Medium Enterprises in FCS and IDA countries, and it aims to help them assess their companies' readiness for investment by IFC and other development finance institutions or both. In this regard, IFC will continue implementing the above and further efforts to increase bankable projects in

FCS by continuously adjusting its business models, client engagements, and instruments for these countries.

Recommendation 3: IFC and MIGA should identify and agree to FCS-specific targets in their corporate scorecards to focus their efforts and track progress in implementing the Bank Group FCV strategy for the private sector. The current use of key performance indicators combining LICs, IDA, and FCS country groupings may dilute the focus on FCS and FCS-specific topics. Related to this, the World Bank, IFC, and MIGA should harmonize their definition of FCS and use a single FCS list to enhance transparency, clarity, and comparability of reported data. IFC management would like to express concerns about this recommendation, and its subrecommendation. It has significant operational and reporting implications for IFC and MIGA, and indeed private sector development in those markets. The IFC capital increase commitments have a strong focus on FCS and include targets for IFC to reach 40 percent of own-account investment volume in IDA17 and FCS and 15 to 20 percent in IDA17-FCS and LIC-IDA17 by 2030. These commitments have been endorsed by IFC's shareholders in 2018 and are reflected in the annual key performance indicators reporting to the Board of Executive Directors. These targets reflect IFC's strategic focus on FCS as well as IDA and recognition that IDA, in particular LICs, share with FCS many characteristics and often face similar obstacles in attracting private investments. There is also a significant overlap between FCS and LICs, and only six countries classified as LICs are not FCS. In addition, most of the LICs have only recently graduated from the FCS status and remain quite vulnerable. Therefore, IFC management does not believe that these combined targets have diluted IFC's focus on FCS and on poorest countries. Since the IFC capital increase targets were already in place during the development of the FCV strategy during 2019–20, they provided a foundation for the FCV strategy and were deemed effective to guide and monitor IFC's engagement in FCS. Regarding the harmonization of the definitions of FCS, IFC made a deliberate decision to adapt the World Bank list to its operational context, and since FY15, IFC has used an expanded definition of FCS to include countries that graduated from the World Bank's FCS list in the subsequent three years. There is a sound operational basis for this decision. This approach was taken to provide greater predictability for IFC's operations teams and clients. It has

enabled IFC to expand its tools, resources, and incentives to the countries that are just emerging from FCS status, but still face significant challenges in attracting private investments. At the time that countries graduate from World Bank's FCS list, they are typically just emerging from fragility or conflict and in some cases later fall back into the FCS status. IFC can play an indispensable role in these countries by supporting their transition at this critical time and helping them stay on an upward developmental trajectory at the time when many are at high risk of reverting. Formalized in a Guidance Note within IFC's Policy and Procedure Framework, IFC's FCS definition has become a part of its DNA. It would be not only disruptive and difficult, but disincentivizing for the operations teams and IFC clients to adopt the World Bank's FCS list.

Multilateral Investment Guarantee Agency Management Response

MIGA thanks IEG for undertaking the evaluation *The International Finance Corporation's and Multilateral Investment Guarantee Agency's Support for Private Investment in Fragile and Conflict-Affected Situations, Fiscal Years 2010–21*. MIGA is appreciative that IEG has taken into account in the final report some of MIGA's observations. The evaluation comes at a critical time in the continued development of MIGA's FCS work. Support for investments into IDA FCS is one of the strategic focus points of our SBO FY21–23. It also has been an important area of concentration in previous strategies. Moreover, the Bank Group FCS strategy stresses the significance of the private sector in contributing to sustainable development in FCS, including in the crucial area of job creation.

Multilateral Investment Guarantee Agency's Performance

The evaluation provides useful and helpful background information and observations. In assessing MIGA's performance in FCS, MIGA would like to draw attention to the following points:

- » MIGA's business model is to provide guarantees for foreign direct investment (FDI); therefore, it is critical for the FCS evaluation to benchmark MIGA's performance against FDI flows into FCS countries to provide the necessary

context to assess MIGA's work in FCS and to draw appropriate conclusions and recommendations. FDI into FCS has declined precipitously over the past 10 years, driven by low commodity prices, slow global growth, the outbreak of new conflicts and the intensification of existing ones, and most recently because of the worldwide pandemic. During that time, despite these serious challenges, MIGA's guarantee volume in FCS has remained steady; indeed, MIGA's guarantees as a percent of FDI flows into FCS have actually increased over the period. Based on IEG's data in figures 1.2 and 2.2, MIGA's guarantees over the last three years of FDI data (2017–19) was 2.25 percent of FDI inflows to FCS, a large increase from 0.62 percent of FDI inflows over the first three years of the review period (2010–12). Therefore, IEG's statement on MIGA's volume without “an upward trend” (15) should be assessed within the context in which MIGA operates and benchmarked against FDI flows. Seen relative to FDI flows into FCS, MIGA has actually significantly grown its portfolio over the period.

- » Moreover, the report confirmed that “evaluated MIGA projects in FCS countries performed better than in non-FCS countries” (25). According to the report, “seventy-three percent (16 of 22) of evaluated FCS projects were rated satisfactory or better for their development outcome” against “64 percent... in non-FCS” projects (25). IEG confirmed the importance of the project sponsors' experience, technical expertise, financial capacity, and knowledge of local conditions as critical factors in operating successfully in FCS. MIGA concurs that these traits have important ramifications for project design and project operation in difficult and uncertain environments. The report also illustrated relative success in FCS projects in Agriculture, Manufacturing, and Services sectors (82 percent) in FCS, compared with 68 percent in non-FCS countries. Successful projects benefited from MIGA's partnership with foreign investors with technical expertise who often had a larger asset base and the ability to manage multiple risks in the FCS context.

Independent Evaluation Group Recommendations

MIGA appreciates IEG's efforts to find useful recommendations. MIGA is working to deepen our ability to work more impactfully in FCS; we readily acknowledge that this is difficult and challenging work. In that context, we are keen to obtain

IEG’s insights on figuring out what we could be doing differently to enhance our impact, including increasing our volumes in FCS countries.

With respect to the current recommendations, we believe that the recommendations could be more supportive of our objectives. Most of IEG’s current findings confirm what we already know, and the recommendations do not have a sharp focus nor a strong analytical evidence base for moving the needle toward the intended outcome of scaling up MIGA’s business for impact in FCS. Moreover, most recommended actions under recommendation 2 are already under implementation and reported in MIGA’s annual SBO update and our quarterly executive vice president report to the Board.

Independent Evaluation Group Recommendation 1

The first recommendation was to “continue to review their financial risk... and enhance capabilities to address nonfinancial risks to ensure they align with achieving business growth targets and impacts in FCS” (61). Furthermore, the recommendation states, “IFC and MIGA should continue to periodically assess that the risk frameworks, models, capital requirements and financial implications fully support the business growth objectives and targets of the institutions in FCS” (61). On nonfinancial risk, the recommendation said, “IFC and MIGA should assess and where needed, strengthen their capacity to address nonfinancial risks as they are a key constraint to developing bankable projects in FCS” (61).

Financial risks: Although the evaluation provides some information on MIGA’s well-developed financial risk management framework, the evaluation did not identify any specific gaps that would lead to recommending any changes. Indeed, the analysis in the report on credit and financial risk at MIGA in the FCS context is minimal and does not help the reader with insights into risk appetite or risk management. For example, the discussion on this topic for MIGA is limited to two data points, specifically, claims paid to date in FCS and pre-claims in FCS—both indicators point decidedly to the higher risks MIGA accepts in FCS. For example, the claims data indicates that during FY10–20, five of the seven claims that MIGA paid were in countries classified as FCS, an indication of the higher risks in FCS. Pre-claims among MIGA projects are also more frequent in FCS countries than in non-FCS,

according to IEG, and while the report decides not to take this evidence into account on the grounds that these claims were not “driven by fragility or conflict,” MIGA would like to state that there is a strong correlation between elevated credit risk and the FCS categorization. Although “drivers” of pre-claims may be similar in FCS and non-FCS countries, the severity of those drivers and the lack of buffers to address them when they manifest are the reasons that projects in FCS countries are financially riskier than projects in non-FCS countries.

This track record of claims and pre-claims in FCS countries is also a recognition that MIGA is open for business in FCS. MIGA’s political risk insurance—composed of four points of cover—currency transfer restriction and inconvertibility, expropriation, breach of contract, and war and civil disturbance—is a flexible instrument and particularly well suited to the FCS context. Generally, there is no minimum risk rating that our business developers are required to observe to engage with clients to discuss investment opportunities in FCS countries. There is one exception: the cover we offer on currency transfer restriction and inconvertibility risk in countries where there are already exchange controls in place—that is, where the risk to an investor has already materialized and a claim would be triggered on day one if we were to offer this cover to the client. However, other than that situation, MIGA can be open for business with its political risk covers in FCS markets. In part, our ability to offer these covers across FCS countries reflects MIGA’s carefully crafted framework to mitigate financial risks in its FCS business. We do this through three main mechanisms: first, access to the IDA PSW; second, MIGA’s ability to actively reinsure its guarantees in the reinsurance market; and third, our impactful pre-claims engagement in projects when issues develop. These three risk mitigants, along with our deep experience in underwriting projects in highly risky environments, have allowed us, to date, to meet our mandate to work in FCS settings while also fulfilling our requirement, as articulated in our founding document, to manage our financial risks prudently.

It is also important to note that both data points, claims, and pre-claims in FCS, compared with non-FCS, are backward-looking; as risk managers, we cannot rely solely on backward-looking data in our decision-making frameworks. This point is especially pertinent at present, given the significant reversals in some prominent FCS countries, where MIGA (as well as the World

Bank and IFC) has been active and where we now face challenges with the projects we have supported.

On other aspects of managing our financial framework—pricing and financial incentives to staff to work on FCS projects—the report does not provide evidence that these are barriers to our work. We, ourselves, rarely find our pricing prevents MIGA from working in FCS countries; on rewards, staff are given financial incentives (and also recognition) for working in FCS countries, through our annual awards program and through the performance system of the Bank Group.

Furthermore, MIGA had hoped that greater recognition would be given to exploring the implications for MIGA’s mandate, business model, and commitment to other strategic objectives of the implications of this recommendation. It is useful to underscore that MIGA’s mandate is underpinned by two objectives: (i) to meet our agreed strategic objectives, including scaling up in FCS, and (ii) to safeguard our financial sustainability. This approach facilitates MIGA’s objectives to serve all clients more effectively and efficiently to maximize our development impact, while maintaining a sound financial structure to ensure long-term sustainability in line with our founding convention (article 25), which requires MIGA to adopt prudent financial management practices. The development objective and the financial sustainability mandate reinforce one another. Without maintaining our financial strength, we put our future ability to deliver development impact at risk, especially in the most challenging country settings of FCS.

MIGA believes that the report would have benefited from giving greater prominence to MIGA’s mandate to ensure our financial stability and further consideration of the implications to our business of a potential higher level of claims that could result. For example, the report states that “MIGA’s claims ratio (0.07 percent of outstanding exposure) during FY15-20 is much lower than for Berne Union members overall (0.42 percent of exposure)” (48) from which the reader might logically infer that to grow FCS business MIGA should increase its willingness to accept a higher level of claims. However, there is no indication of what this would mean for MIGA’s business model, the implications for MIGA’s capital position, or financial standing with rating agencies. For example, the delivery of some of MIGA’s products requires that

MIGA remain a “highly rated multilateral bank,” but would it be possible to sustain that designation with a level of claims comparable to Berne Union members? It would have been helpful if the IEG report provided analysis of this kind to make the recommendations more actionable and impactful.

It would also have been helpful to provide more granular comparator analysis, as was indicated in IEG’s Approach Paper to the evaluation, as to how other guarantee agencies, both in the development finance institutions community and in the private sector, are engaging in FCS and what lessons could be discerned from this analysis with respect to the management of financial risks; however, the report was limited to qualitative analysis and did not bring any insights beyond the observation that “the DFI’s [development finance institution’s] engagement in FCS remains fragmented and may lead to competition for a few bankable projects.” (53) The report presented activities of comparator institutions (such as Berne Union members) without careful review of the nature of these activities and the substantive differences between MIGA’s business model and the business model of Berne Union members. For example, the report compares MIGA’s share in the FCS market to national public investment insurers without noting that these institutions’ products are often backed by their national governments. No analysis is provided on the activities of private insurers.

Nonfinancial risks: IEG recommended, “IFC and MIGA should assess and, where needed, strengthen their capacity to address nonfinancial risks as they are a key constraint to developing bankable projects in FCS” (61). The recommendation would have been more useful if it had been more specific about the types of project risks in the FCS contexts that are critical and key constraints for doing business in FCS. Although the evaluation recognizes nonfinancial risks as a key constraint to developing bankable projects in FCS, IEG does not indicate which among the nine nonfinancial risks it identifies in the report are the most impactful regarding MIGA’s operations in FCS. IEG seems to suggest that thorough environmental and social (E&S) due diligence and capacity building, these nonfinancial risks will be overcome, but in MIGA’s experience, institutional weaknesses can overwhelm efforts at capacity building or even high-quality due diligence and hence result in the less than fully successful application of MIGA’s E&S standards at some stages of the project. Moreover, accepting less sophisticated clients can signifi-

cantly increase the chance of having negative consequences (including E&S and reputational risk for the Bank Group) derived from these risks. The risk appetite statement in this evaluation did not explore these possible trade-offs in a way that would support helpful recommendations in this area.

In this context, it is useful to underscore that MIGA applies the same E&S Performance Standards to our projects in FCS as we do in non-FCS. We believe this is in line with our policy and guidance from the Board. In challenging settings, when needed, we will provide longer time periods for our clients in FCS to fulfill their obligations under the E&S Action Plan. In those instances, we may also provide greater support to clients, for example, through dedicated staff time and training to build their capacity and understanding. However, we will only bring a project to the Board for approval if we believe the project will meet the Performance Standards in the time period set out in the E&S Action Plan that MIGA agrees with the client and is embedded in our contract of guarantee.

IEG Recommendation 2

The second IEG recommendation is for IFC and MIGA to “recalibrate their business models, client engagements, and instruments” (61) for these countries to focus on developing bankable projects in FCS. MIGA agrees that the main obstacle to further supporting foreign investment into FCS countries is the lack of bankable projects. MIGA considers that for the second recommendation, it would be more beneficial to specify specific areas of recalibration in its business model, distinguishing between actions that are already in place to address the challenges and are showing promise and areas in which MIGA needs to take a new approach. For example,

- » To continuously enhance collaboration on diagnostic and upstream work with the World Bank and IFC and to fully exploit synergies with IFC and the World Bank’s creating markets activities, MIGA has scaled up further its participation in CPSDs, Systematic Country Diagnostics, and Country Partnership Frameworks, and also in the new Country Climate and Development Reports, to identify and, work with the World Bank and IFC, to address impediments in business climates that constrain private sector activities as well as FDI. Indeed, MIGA’s focus, given its limited resources when compared

with the World Bank and IFC, has been specifically targeted at FCS countries to ensure our collaboration, both in the Bank Group's coordinated upstream work or downstream in joint projects, whether with the World Bank and IFC or both. MIGA has scaled up its staffing presence in the Africa region to be closer to developments in the field and is continuing efforts to look for opportunities where we could make a difference for our work in moving more staff closer to project locations. MIGA would also point to the close coordination in developing and implementing the PSW, which is helping to support MIGA's work in FCS in particular and is a best-in-class example of coordination across the three institutions.

- » Concerning the recommendation to use the full tool kit available, including the Small Investment Program (SIP), it is useful to recognize, as IEG itself acknowledges in the report (appendix E), that SIP projects, as is similar to non-SIP projects in FCS, require extensive analysis because of the high risk nature of SIP projects and limited client capacity. In fact, it is a bit puzzling as to why IEG singles out the SIP program for special mention in the recommendation, given that IEG concludes (appendix E) that “there is insufficient evidence on [the SIP program's] overall impact on scaling up bankable projects” (95). Although IEG observes that the SIP program has not been used since FY17, it would have been more helpful to explain the main reason, which is that the small dollar value of a project does not necessarily correlate to a straightforward project. Indeed, although MIGA has supported many small projects since FY17, none of these was sufficiently straightforward to justify the streamlined procedures of SIP processing. IEG reached a similar conclusion in their own review of the SIP program as indicated in this report. In addition, it is important to note that MIGA's operational team is already deeply into a wide-ranging review of the SIP and how MIGA could use the SIP in a more effective manner to support MIGA's current strategic areas, including in IDA and FCS.
- » For addressing the upfront costs of developing private sector projects and project preparation in FCS, MIGA has established the MIGA Strategic Priorities Program. This program is a common framework under which MIGA will administer all four of its trust funds. MIGA secured funding for two new trust funds in the first half of FY22, one of which is the Fund for Advancing Sustainability. This fund will help MIGA-supported projects to address E&S and

Integrity risks and build the capacity of MIGA-supported projects to manage such risks. MIGA would also like to reference and support the innovation proposed in IEG's report on the PSW (The World Bank Group's Experience with the IDA Private Sector Window: An Early-Stage Assessment), which recommends, "in future, the PSW could be structured to allow funding of advisory services from a small part of its overall allocation" (World Bank 2021b, 28). MIGA would also welcome further support from IDA to address the resource implications of scaling up in FCS, as IEG recommends.

- » For putting in place mechanisms to track implementation and effectiveness of these initiatives for real-time learning and course correction, MIGA's ex ante impact assessment and corporate scorecard would give information about tracking the implementation. MIGA has successfully launched its ex ante development impact assessment tool, Insights on Managerial Performance and Competency Tool, which recognizes the special development role that private sector projects can bring to countries that are affected by fragility and conflict. MIGA's corporate scorecard also gives real-time indication of pipeline development and project performance for any necessary course corrections.

The report does not seem to give MIGA an evidenced-based direction as to what areas of our work to address in the challenges we face in FCS. But MIGA certainly agrees there is more we could be doing on the client development and product work. Of course, MIGA is not standing still in these areas, either. As Board members are aware, MIGA recently launched a new trade product with IFC specifically targeted at FCS and IDA countries.

MIGA has been continuing its efforts, as outlined in the SBO FY21–23 and in recent quarterly executive vice president reports and the most recent SBO update, to use its full tool kit in IDA FCS including (i) continuing Bank Group collaboration and the Maximizing Finance for Development or Cascade approach; (ii) leveraging blended finance solutions to better manage financial risks, including the PSW and MIGA-specific Trust Funds, both of which are targeted to FCV settings; (iii) receiving approval and moving to implement a facility to help smaller clients meet MIGA requirements for E&S and integrity standards; (iv) enhancing the SIP for development impact; and (v) continuing innovation, including establishing an Innovation Forum across MIGA aimed at establishing a staff-led innovation process that will allow staff to

participate in developing transformative ideas with a specific focus on our strategic areas of engagement. In effect, MIGA has been implementing these activities and is already tracking and reporting them through the annual SBO Updates and Executive Vice President reports.

In summary, the IEG recommendations pertaining to recommendation 2 mostly touch on areas where MIGA is already engaged, taking action, and reporting to the Board. We would be happy to discuss additional ideas with IEG where we see opportunities for doing more, especially in the product and client development space.

IEG Recommendation 3

The third recommendation advocates FCS-specific targets to be incorporated into scorecards to focus our efforts and track progress in implementing the Bank Group FCV strategy for the private sector.

It is useful to clarify that IFC and MIGA use the same list for FCS that the World Bank uses. The Bank Group Corporate Scorecard uses Bank Group commitment volumes in FCS based on the Bank Group harmonized definition. For MIGA (and IFC), the adjusted FCS definition—“countries on the applicable World Bank’s Harmonized List of FCS for a given year plus countries that have been on the harmonized list within any of the past three years”—is used in MIGA’s SBO and corporate performance monitoring. The use of this strategy-based definition is aligned with MIGA’s efforts to scale up its work in FCS in the following manner:

- » It is harmonized with IFC, reflecting our efforts to work with IFC to increase business development and deal sourcing.
- » The strategy-based FCS definition aligns with the private sector project cycle in FCS, which is, as pointed out in the IEG report, much longer than in non-FCS countries. Staff working on a project in an FCS country require a longer period to bring the project to contract signing and as a result a switch to the IEG approach would likely disincentivize staff to develop projects in FCS as their efforts would be less likely to be recognized if a country “graduates” from the FCS list while the project is being developed.

- » MIGA's definition is associated with its strategic intent to support projects in countries transitioning through to graduation from FCS status when conditions are still fragile and considerable political, and economic uncertainties remain. Additional investment, both from domestic and foreign sources, after graduation from the harmonized list is critical to ensure that there is not a reversal toward fragility.

MIGA is not consulted on whether countries should graduate from the harmonized list nor does the Agency have any specific advance knowledge of when countries will exit the harmonized list in any given year. We believe that if we were to use the harmonized list strictly on an annual basis as IEG is recommending for our strategic assessment of our work in FCS, it would discourage IFC and MIGA staff from business development activities and project preparation across all FCS countries. Many flagship projects in FCS were designed and prepared when the countries were on the harmonized list but were not on the list when MIGA's contract of guarantee was signed. Staff working for many years on a project would not be recognized for their FCS work if the country moves out from the harmonized FCS list before the guarantee contract is closed. For example, for the Upper Trishuli-1 Hydro-power Project in Nepal the team worked on the project starting in 2014 when the country was on the harmonized FCS list, but the project was approved in FY19 after the country graduated from the harmonized list.

Using the strategy-based FCS definition for private sector operations reflects the challenges of doing business in FCS, our intention of making meaningful contributions to the lives and livelihoods of the people in FCS, and the establishment of appropriate incentives for management and staff to invest their time and resources on projects in FCS.

Indeed, IEG itself adjusts the classification of FCS for portfolio analytical purposes. For example, the *Results and Performance of the World Bank Group* report uses project performance for FCS based on FCS classification at the time of evaluation across the Bank Group – the reason IEG does so is to capture the fragility impact in projects over the implementation period. It is also interesting that IEG's first recommendation is to adapt existing frameworks for upscaling our FCS work, but IEG does not recommend that IFC or MIGA use a definition of FCS that supports our business in these countries. More-

over, there is no lack of transparency in MIGA’s strategy-based definition: it is clearly explained in the SBO setting out our scorecard metrics. IFC’s and MIGA’s reporting is transparently based on our strategic undertaking to address FCS countries’ challenges.

We believe it is useful to show the MIGA FCS portfolio summary if IEG’s analysis were performed based on the IFC and MIGA definition. The chart below shows the recent growth trend of FCS projects by number (in FY20) and reveals the interesting growth of smaller projects (in FY21).

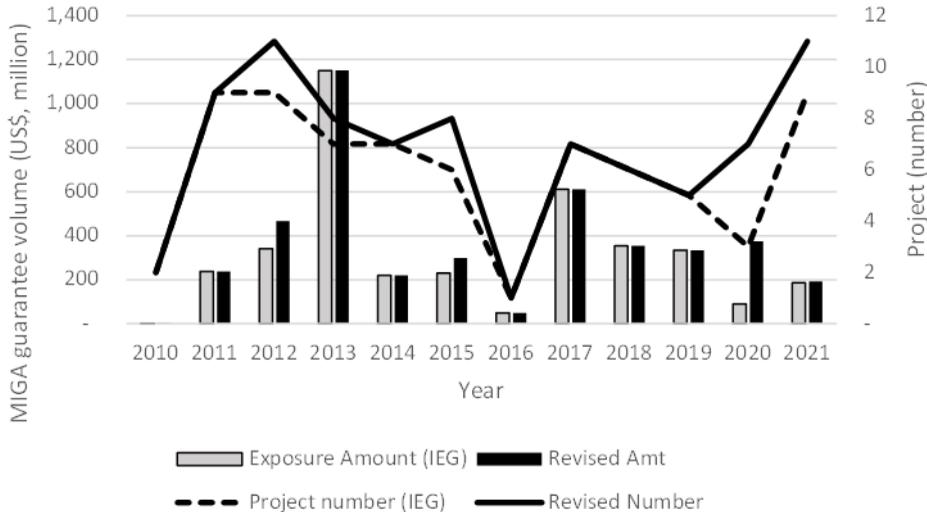
Table MR.1. MIGA Guarantee Shares in FCS, comparing IEG and MIGA IFC Strategic-based Approaches for Fiscal Years 2010–21 (percent)

Share of FCS	FCS According to IEG Definition	FCS According to Strategy-Based Definition
By commitment amount	8.6	9.7
By number of projects	17.1	19.8

Source: Multilateral Investment Guarantee Agency.

Note: IEG = Independent Evaluation Group; IFC = International Finance Corporation; FCS = fragile and conflict-affected situations; FY = fiscal year; MIGA = Multilateral Investment Guarantee Agency.

Figure MR.3. MIGA Guarantee Volume and Number of Projects, Comparing IEG and MIGA and IFC Strategic-Based Approaches by Fiscal Year



Source: Multilateral Investment Guarantee Agency.

Note: IEG = Independent Evaluation Group; IFC = International Finance Corporation; FY = fiscal year; MIGA = Multilateral Investment Guarantee Agency.

By taking the annual harmonized FCS list for evaluation purposes of this report, MIGA believes that an opportunity was missed to focus on the role of MIGA operations in countries that had recently transitioned from the harmonized list but remained on the IFC MIGA strategy-based FCS definition. An analysis of these engagements may have brought valuable lessons and insights for business development and possible contribution of projects to stabilization in the post-fragile context of these countries, especially in light of stakeholders' concerns that countries may fall back into FCS status after a few years of stability after exiting from the FCS harmonized list.

¹ IFC's FCS reporting methodology has been formalized in Guidance on Country Priority Reporting. <https://km.ifc.org/sites/pnp/MainDocumentMigration/IFC%20Country%20Priority%20Reporting%20Guidance.pdf>

Chairperson's Summary: Committee on Development Effectiveness

The Committee on Development Effectiveness met to consider the Independent Evaluation Group (IEG) evaluation entitled *The International Finance Corporation's and Multilateral Investment Guarantee Agency's Support for Private Investment in Fragile and Conflict-Affected Situations, Fiscal Years 2010–21: An Independent Evaluation* and the draft management response.

The committee welcomed the evaluation, noting its relevance and timeliness to inform the upcoming discussions of the 20th Replenishment of IDA (International Development Association) and the implementation of the fragility, conflict, and violence strategy. Members stressed the relevant role that the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) play in achieving the twin goals and the Sustainable Development Goals (SDGs) by increasing support for private sector development (PSD) and private investment in fragile and conflict-affected situations (FCS). Members were pleased to learn that IFC and MIGA have been able to maintain the relative share of their business volumes in a context of declining foreign direct investment flows to FCS countries; have gradually deployed new approaches and instruments in FCS; and are moving in the right direction for scaling up and meeting their goals in FCS. Nonetheless, members recognized that further improvement is needed to achieve the FCS targets committed to under the capital increase package and appreciated the report's findings and recommendations to improve results and scale up private sector interventions in FCS countries.

While some members noted their agreement with the report's recommendation that IFC's and MIGA's risk management frameworks and capacities should be fully operational and continuously adapted to changing circumstances and operations (recommendation 1), some asked for clarification on whether changes in the risk framework would affect IFC's and MIGA's risk appetite and IFC's credit rating. They recognized that investing or providing investment guarantees in high-risk countries involves trade-offs with

IFC's and MIGA's overall risks and financial results and that there was a need for the Board of Executive Directors to have more candid conversations on risk-taking, including on the range of nonfinancial risks that can be particularly acute in FCS contexts. They also asked management to comment on the robustness of their risk management frameworks to increased fragility in countries where IFC and MIGA are pursuing investments and guarantees or have already secured commitments.

Members noted management's clarifications that developing a more intentional and measurable approach to developing bankable projects in FCS was at the heart of IFC 3.0 strategy and MIGA's Strategy and Business Outlook: FY21–23 (recommendation 2). While acknowledging the array of approaches and initiatives already developed by IFC and MIGA, members highlighted the need to sustain focus on World Bank Group upstream engagement, indicating that recalibration of their business models, client engagements, and instruments as IFC and MIGA expand their work in FCS countries should be seen as "business as usual." Members called for stronger collaboration among the Bank Group institutions to address regulatory constraints and for the development of more intentional and measurable approaches to developing bankable projects in FCS.

Members recognized the operational challenges cited by IFC and MIGA regarding the recommendation to identify and agree to FCS-specific targets in IFC and MIGA corporate scorecards to focus their efforts and track progress in implementing the Bank Group fragility, conflict, and violence strategy for the private sector (recommendation 3). However, many members saw value added in pursuing the evaluation's recommended approach and asked management to reflect on maintaining the existing targets internally while setting additional FCS-specific targets to help target progress. Members acknowledged the explanation by IFC that many countries that graduate from the World Bank FCS list remain fragile and classified as low-income countries in the years following graduation, and it was therefore crucial to continue supporting them. They noted the proposal by IFC to continue using current metrics and to conduct ex post assessments and IEG's clarification that its recommendation was to add FCS-specific targets to complement, not replace, existing key performance indicators agreed to in the context of the

capital increase package. Members encouraged IEG, IFC, and MIGA to continue conversations regarding adopting a wider set of metrics.

Members appreciated IFC management’s confirmation that it has taken important organizational, managerial, and business decisions to meet its 2030 capital increase targets and to scale up its business in FCS. Noting the relevance of the recommendations, the committee acknowledges the divergent views of IFC, MIGA, and IEG in regard to the recommendations and, therefore, encouraged IEG, IFC, and MIGA management to take into consideration the committee’s views and work together to find common ground on the way forward, including how to interpret, operationalize, and track the recommendations.

1 | Background and Approach

Highlights

The World Bank Group Strategy for Fragility, Conflict, and Violence 2020–2025 emphasizes the private sector’s importance for sustainable development in countries affected by fragility, conflict, and violence.

The International Finance Corporation and the Multilateral Investment Guarantee Agency have set ambitious targets for scaling up investments in fragile and conflict-affected situations.

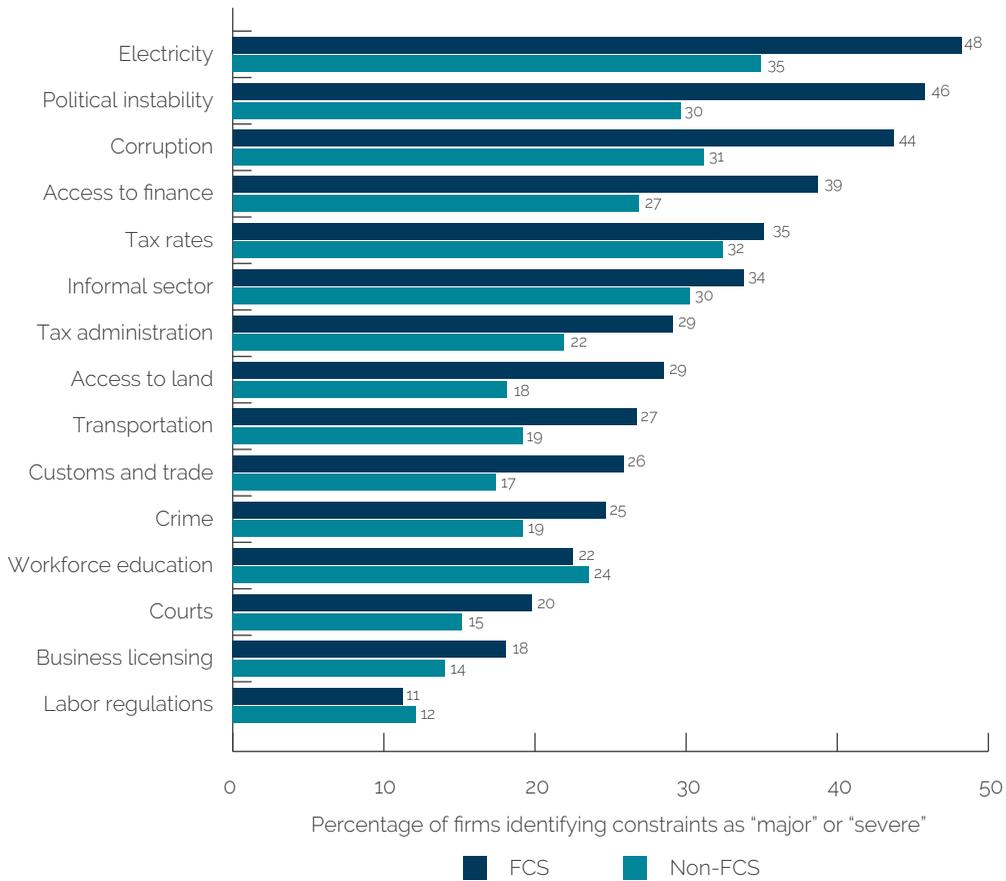
This evaluation assesses how effective the two institutions have been in supporting private investment in fragile and conflict-affected situations, derives lessons from their experiences, and explores factors influencing the scale-up of their investments.

Background and Context

The private sector plays a critical role in providing jobs and income in countries affected by fragility, conflict, and violence (FCV).¹ Although the private sector in fragile environments and in conflict situations is often informal, constrained, and distorted and may involve entities that are parties to conflict, it is acknowledged to have an essential role in providing livelihoods, income, and services² to people. Inclusive and sustainable economic growth led by private investment can help heal grievances stemming from economic exclusion.

The World Bank Group Strategy for Fragility, Conflict, and Violence 2020–2025 emphasizes the importance of the private sector and private investment for sustainable development in FCV (World Bank 2020b). The World Bank Group's FCV strategy, endorsed by the Board of Executive Directors on February 25, 2020, recognizes the many challenges facing private investments in fragile and conflict-affected situations (FCS) and the need to address them. These challenges include difficult operating environments, higher costs of doing business, skills shortages, the absence of the rule of law, high levels of informality, and poor infrastructure and supply chains (figure 1.1). The strategy states that FCS need a “development approach that catalyzes private sector development to complement public efforts” (World Bank 2019e, 6).

Figure 1.1. Leading Constraints to the Private Sector in FCS and Non-FCS Countries



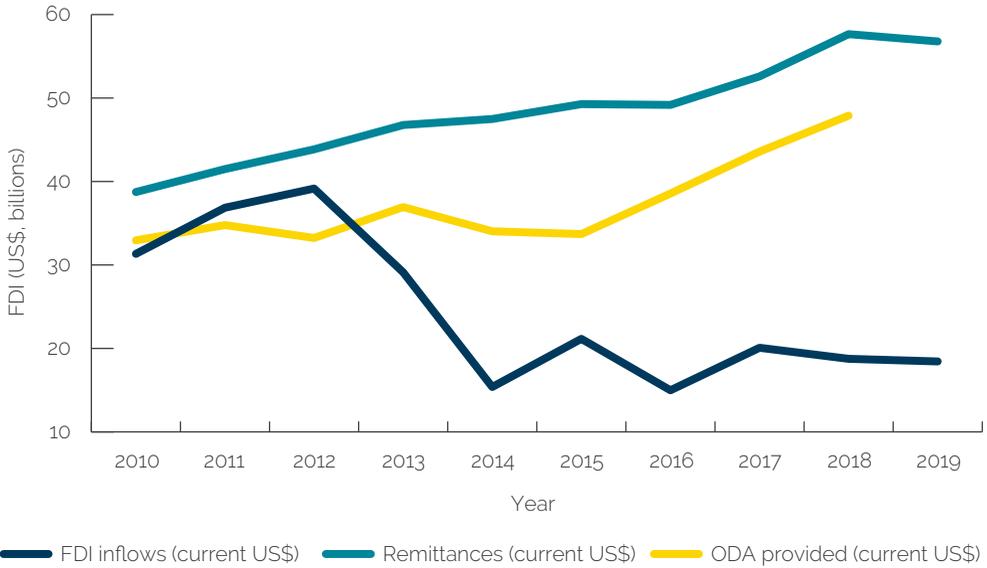
Source: World Bank and Independent Evaluation Group calculations.

Note: FCS = fragile and conflict-affected situations.

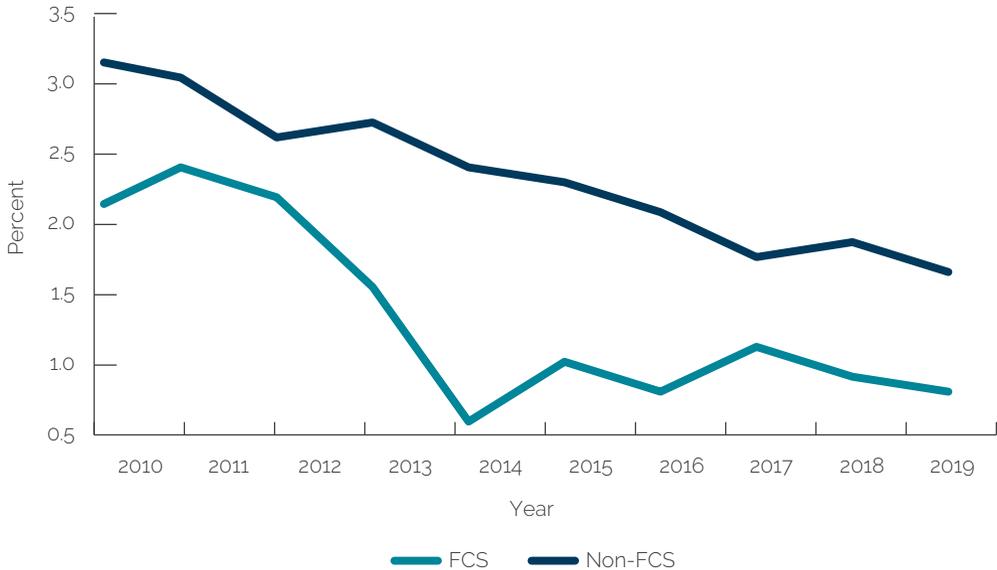
FCS countries are underserved by foreign direct investment (FDI) flows. FDI inflows have declined since 2012, driven by a reduction of investments in some resource-rich countries, and currently remain far below official development assistance and remittances as a source of external financing (figure 1.2).³ FDI is a less-prominent source of external financing in FCS compared with developing countries overall (1.5 percent of gross domestic product in 2010–20 in FCS and 2.5 percent of gross domestic product in non-FCS). Although FCS economies represent 5.8 percent of developing world gross domestic product, they receive only 3.6 percent of FDI flows. Among FCS, FDI flows are concentrated among the top recipients (the top six FCS countries account for 75 percent of net FDI flows to FCS).⁴

Figure 1.2. Foreign Direct Investment Flows to FCS

a. International flows to FCS



b. Foreign direct investment as percentage of GDP (nominal)



Sources: World Development Indicators database; Independent Evaluation Group staff calculations.

Note: Non-FCS includes both International Bank for Reconstruction and Development and International Development Association FCS countries. FCS = fragile and conflict-affected situations; FDI = foreign direct investment; GDP = gross domestic product; ODA = official development assistance.

The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) have set ambitious corporate targets

for scaling up investments in International Development Association (IDA) and FCS countries without a separate target for FCS countries. Supporting investment in FCS has been an IFC corporate priority since 2009, and it adopted an FCS strategy in 2012. IFC has refined its approach over the past decade, introduced several initiatives and instruments to support its engagement in FCS, and expanded its engagements into new areas, such as forced displacement. As part of the 2018 capital increase package, IFC committed to delivering two targets by 2030: 40 percent of its overall business program in IDA and FCS countries and 15–20 percent in low-income IDA and IDA FCS countries (IFC 2019c). IFC’s corporate strategies have also identified priority areas, such as infrastructure, agriculture, and financial and social inclusion in FCS.

FCS countries have been a strategic priority for MIGA since 2005,⁵ and it seeks to increase the focus on FCS in its current strategy for fiscal years (FY)21–23. The FY12–14 MIGA strategy justified its focus on conflict-affected countries by the low levels of FDI and noted that the lack of strong governments often makes the private sector the best suited to providing crucial services in these countries. By supporting FDI in conflict-affected countries, MIGA was expected to provide demonstration effects, especially to other political risk insurance (PRI) providers that perceived risks in these contexts are too high. The FY15–17 strategy reaffirmed MIGA’s commitment to supporting conflict-affected and postconflict situations and added that these countries are high risk and “fragile.” MIGA aimed to restore investor confidence to help increase private capital flows and encourage new investments by supporting FDI. Its FY18–20 strategy aimed to grow business in FCS to “have impact where private political risk insurers are unwilling to go” (MIGA 2017, 2). The FY21–23 MIGA strategy continues the focus on FCS countries, combined with its emphasis on IDA countries, with a target to increase the share of MIGA guarantees in IDA17 (the 17th Replenishment of IDA) and FCS countries to an average of 30 to 33 percent during FY21–23. Several initiatives related to the implementation of the World Bank Group FCV strategy underpin the current MIGA strategy, including product adaptation, increasing collaboration with the other Bank Group institutions, leveraging blended finance, helping smaller clients meet environmental and social (E&S) standards, and enhancing its conflict sensitivity analysis (MIGA 2020).⁶

Evaluation Motivation and Objectives

This evaluation seeks to inform the implementation of the World Bank Group FCV strategy and IFC's and MIGA's commitments to scale up investments in FCS. As the Bank Group is implementing its first FCV strategy (2020–25), this evaluation seeks to gauge the effectiveness of and develop lessons from efforts to enhance the range of IFC and MIGA initiatives to scale up and improve sustainable private investments in FCS under the capital increase package and IFC's and MIGA's strategies.

The evaluation's objective is to assess how effectively IFC and MIGA have supported sustainable private investment in FCS countries and derive lessons from their experiences. The evaluation assesses IFC's and MIGA's effectiveness in scaling up investments in FCS and the outcomes of IFC and MIGA interventions, approaches, and instruments to support private investment in FCS. It focuses on IFC investments, MIGA guarantees, and IFC advisory services to firms.⁷ The intent is to assess institution-specific issues such as instrument fit, risk management and tolerance, staffing and incentives, and several FCS-specific initiatives and new approaches, such as the Conflict Affected States in Africa (CASA) initiative and the IDA Private Sector Window (PSW). The evaluation also reviews and synthesizes approaches and experiences of comparator institutions.

The evaluation builds on and expands recent Independent Evaluation Group (IEG) evaluative work. It builds on and reflects findings from recent and parallel IEG studies, including an early-stage assessment of the Bank Group's experience with the PSW, an IFC in FCS synthesis, a cluster note on IFC's blended finance operations, and a cluster note on IFC in FCS Project Performance Assessment Reports. This evaluation adds insights from country and project cases, distilling new findings and adding nuance to existing ones based on deeper analysis of contextual factors. It expands the knowledge base on MIGA. It also contributes insights on issues identified as critical to IFC's and MIGA's implementation of their FCV strategies, including human resources, financial and risk implications, and approaches deployed in FCS.

Methodology and Scope

The evaluation tries to answer the following question: To what extent have IFC and MIGA contributed to development progress by supporting private investment in FCS? This main question includes the following subquestions:

- » To what extent have IFC and MIGA instruments been effective in scaling up private investment in FCS?
- » How effectively have investments supported by IFC and MIGA delivered development impact in FCS countries and contributed to the financial objectives of the two institutions?
- » Which factors have enabled or constrained IFC's and MIGA's effectiveness in supporting private investment and development impact in FCS?⁸
- » What are the lessons and implications for scaling up sustainable investment in FCS?

The conceptual framework for the evaluation outlines the links among outcomes, impacts, and the factors affecting them (appendix A). IFC's and MIGA's mechanisms and business models (internal factors) shape and support their outcomes and impacts (effectiveness) while addressing the risks and constraints associated with FCS countries and clients (external factors).

The evaluation covers all FCS-relevant activities included in IFC's and MIGA's corporate strategies, complementary World Bank interventions as part of the analysis of Bank Group collaboration, and a qualitative analysis of comparator development institutions. First, the evaluation covers all IFC and MIGA instruments during FY10–21 that support private investment in FCS directly, including (i) IFC investment services, (ii) IFC advisory services to private firms in FCS, and (iii) MIGA guarantees. Second, in the country case studies, the evaluation also covers World Bank interventions and IFC advisory services to governments that relate directly to generating private investment.

The concepts used by Bank Group institutions to define FCS are not fully consistent. IEG identified and analyzed the commitments and guarantee volume using the World Bank Harmonized List of Fragile Situations and since FY20, the List of Fragile and Conflict-Affected Situations, due to its methodological rigor and to ensure consistency and comparability of data when

assessing the three Bank Group institutions.⁹ IFC and MIGA have separately adopted a practice of extending the World Bank (harmonized) FCS list by three fiscal years. Finally, both IFC and MIGA track their corporate commitments combining IDA17-eligible and FCS countries.

Evaluation Design

The evaluation is based on a multilevel analysis and derives its findings through the triangulation of several sources of evidence. It conducts analysis on three levels: total portfolio, country (case studies for seven selected countries), and project (an in-depth analysis of 12 projects aligned with the seven country case studies). Appendix A provides additional details on the methodology, the different evaluation components, and the selected country cases and interventions.

The evaluation also reflects complementary background work covering several dimensions of IFC's and MIGA's business models and modalities of client engagement in FCS. These dimensions include a review of staffing, human resource policies, and incentives in FCS; an assessment of the CASA initiative; a benchmarking of comparator development finance institutions (DFIs); an analysis of support to gender in FCS; and a review of financial and risk implications for IFC.

This report is organized as follows: Chapter 2 discusses the effectiveness of IFC's and MIGA's engagements in FCS. Chapter 3 explores issues and challenges regarding IFC's and MIGA's potential to scale up their investment volumes and achieve development impact in FCS. Chapter 4 provides conclusions and recommendations.

¹ The World Bank Group uses two terms related to fragility and conflict. “Fragile and conflict-affected situations (FCS) refers to a group of countries included in the Harmonized List of Fragile Situations” (appendix D), whereas “fragility, conflict, and violence” refers to a set of vulnerabilities, irrespective of whether a country is classified as FCS (including instances of subnational conflict, forced displacement, and urban violence). Consistent with the operational practice of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), this evaluation refers to the FCS group of countries unless otherwise indicated.

² The services provision by the private sector has two aspects: direct (services provided by the private sector) and indirect (through taxes collected by the government for the provision of essential services).

³ Data are based on FCS country classification in fiscal year (FY)19.

⁴ These include the Republic of Congo, Nigeria, Lebanon, Mozambique, Myanmar, and the Democratic Republic of Congo.

⁵ MIGA’s earlier strategies did not use the term FCS. The MIGA FY05–08 Strategy identified the support for cross-border investments in conflict-affected environments and frontier markets and for infrastructure as well as South-South investments as its operational priorities. In its FY09–11 Operational Priorities, MIGA identified support to foreign investments in postconflict countries support for International Development Association (IDA) countries, complex projects (e.g., infrastructure and extractive industries), and South-South investments as its four operational priorities. MIGA’s FY12–14 Strategic Directions reiterated the same four strategic areas as in the previous strategies. MIGA’s FY15–17 Strategic Directions continued to use the term “conflict-affected situations” as one of its focus areas in addition to IDA countries, transformational projects, energy efficiency and climate change, and middle-income countries. It was in MIGA’s FY18–20 Strategy and Business Outlook that the term “FCS” was used as one of MIGA’s three priority areas—the other areas were IDA countries and climate change and energy efficiency. Most recently, in its FY21–23 Strategy and Business Outlook, MIGA committed to increase its guarantees in IDA and FCS countries combined to an average of 30–33 percent during the period.

⁶ The strategy for FY21–23 outlines the following aspects of MIGA’s business model in IDA FCS: (i) through Bank Group collaboration and the Cascade approach, leveraging increased upstream engagement with World Bank and IFC for FCS-specific approaches to public and private sector financing and solutions; (ii) leveraging blended finance solutions to expand

MIGA's ability to take greater financial risk by using blended finance from the MIGA Guarantee Facility under IDA's Private Sector Window in eligible countries and the Conflict-Affected and Fragile Economies Facility in middle-income countries that are also FCS; (iii) exploring options for a facility to help smaller-capacity clients meet environmental and social and integrity standards; (iv) streamlining by potentially scaling up the Small Investment Program and simplifying approval for smaller, impactful projects, with broader Board of Executive Directors–delegated authority for select projects; and (v) enhancing conflict sensitivity analysis.

⁷ Advisory services for firms that this evaluation covers include the following institution types: private, publicly listed company; private (unlisted) company; private (unlisted) company going public (before initial public offering); nongovernmental or civil society organization; private (unlisted) company associated with a publicly listed company; and international company.

⁸ Factors include the following: (i) those relating to IFC's and MIGA's institutional performance, such as business models, policies, adaptation and selection of instruments, risk tolerance, risk mitigation tools, availability of analytical and diagnostic work, staffing and internal incentives, operational costs, and adequacy and effectiveness of partnerships with other actors and collaboration within the Bank Group; (ii) external factors related to specific country conditions (typologies), country and market risks, and general policy and enabling environment; and (iii) factors related to the availability, type, and quality of private clients (for example, foreign, local, or regional firms; state-owned enterprises).

⁹ For the Harmonized List of Fragile Situations, see appendix D, and for the Classification of Fragile and Conflict-Affected Situations, see <https://www.worldbank.org/en/topic/fragility/conflictviolence/brief/harmonized-list-of-fragile-situations>.

2 | IFC and MIGA Engagements in FCS: How Effective Are They?

Highlights

The International Finance Corporation and Multilateral Investment Guarantee Agency have not been able to scale up their business volumes in fragile and conflict-affected situations (FCS), despite the introduction of new instruments and modalities for advisory and investment support to FCS countries.

The International Finance Corporation and Multilateral Investment Guarantee Agency investments and guarantees are concentrated in a few countries that already attract sizable foreign direct investment flows.

Despite the challenging business environment and constraints in FCS, evaluated International Finance Corporation projects perform almost as well as those in non-FCS, especially infrastructure projects and larger investments in larger economies. The Multilateral Investment Guarantee Agency's projects in FCS performed better than those in non-FCS countries.

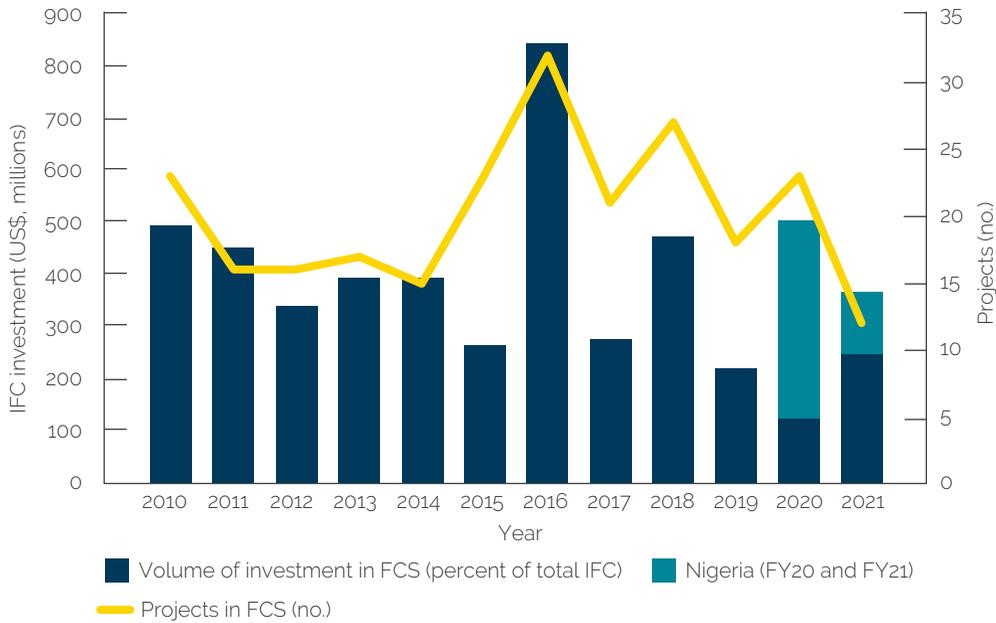
This chapter discusses the scale and effectiveness of IFC and MIGA engagements in FCS. It considers the volume of private investment supported by IFC and MIGA in FCS, the evaluated project portfolio's effectiveness, and the private sector development and broader development outcomes associated with IFC and MIGA engagements. The chapter also explores the implications of a worsening in fragility and of the coronavirus pandemic (COVID-19).

Scaling Up IFC and MIGA Investment Support in FCS

IFC and MIGA have not set specific corporate targets for business volume growth in FCS, but scaling up investments in FCS remains a strategic objective for both institutions. There are no agreed corporate targets for FCS countries to complement those for the low-income country FCS and IDA FCS identified in the capital increase package and in MIGA's strategy, respectively. IFC has an ambitious commitment of delivering 40 percent of its business volume in IDA and FCS countries and 15–20 percent in low-income IDA and IDA FCS countries by 2030. MIGA committed to increase the share of the volume of guarantees issued to projects in FCS and IDA countries to 30–33 percent of its guarantee volume by FY23.¹ Both IFC's and MIGA's commitments may lead to significant increases in business in FCS, but at present, the institutions do not have an FCS-specific metric to measure their commitment to scale up investment and guarantee support under the Bank Group FCV strategy.

IFC's business volume in FCS has been relatively flat since FY10, and scaling up has remained a challenge. From FY10 to FY21, long-term investments in FCS for IFC's own account on average reached 5.2 percent of IFC's total long-term commitments and 8.6 percent of the number of projects (figure 2.1).² IFC's annual commitment volumes in FCS averaged \$420 million (FY10–21) with some volatility, which partly reflects the changing FCS country classification. For example, a strong increase in FY20 business volume is due to Nigeria's addition to the FCS list.

Figure 2.1. IFC Investments in Fragile and Conflict-Affected Situations (IFC's Own Account, Long-Term Investments), Fiscal Years 2010–21



Sources: International Finance Corporation and Independent Evaluation Group staff calculations.

Note: FCS = fragile and conflict-affected situations; FY = fiscal year; IFC = International Finance Corporation.

IEG has analyzed IFC’s commitments and MIGA’s guarantees based on the Harmonized List of Fragile Situations, given the methodological rigor and wide application of this classification. This list is produced by the World Bank and has been replaced since FY20 by a List of Fragile and Conflict-Affected Situations, which was developed as part of the FCV strategy. These numbers differ from those reported by IFC and MIGA for their engagement in FCS because of IFC’s convention to use a modified FCS definition and country list extending the FCS classification of countries by three years (para. 1.12).^{3,4} Additionally, there are methodological challenges in classifying (and accounting for) IFC regional and global programs as FCS. The availability of data and method to determine FCS allocations for regional and global projects has evolved over time. Between FY16 and FY21, these projects provided an additional \$479 million in commitments (based on the Bank Group’s harmonized list) to FCS countries. Appendix G provides further detail on definitional and methodological issues.

IFC's commitments and MIGA's guarantee volume in FCS countries are concentrated in a few countries that already attract relatively high levels of FDI, including resource-rich countries. The top six FDI-receiving FCS countries (Democratic Republic of Congo,, Lebanon, Nigeria, Mozambique, Myanmar, and the Republic of Congo) out of 37 FCS countries in FY20, account for three-quarters of FDI inflows to FCS (and 54 percent of IFC's business volume and 60 percent of MIGA guarantee exposure in FCS). As shown in table 2.1, resource-rich FCS economies received 48.1 percent of IFC investments and 27.6 percent of MIGA guarantees in all FCS countries during the review period (FY10–21). By contrast, IFC and MIGA have yet to support investments in several of the FCS countries, including several of the small island developing states.

Table 2.1. FCS Share of FDI, IFC Own Account, Long-Term Investments, and MIGA Guarantees in Different Country Typologies (percent)

Country Typology	Share of FDI, 2010–19	IFC Investments, FY10–21	MIGA Guarantees, FY10–21
All FCS countries	100	100	100
IDA FCS	88.0	72.0	92.7
Non-IDA FCS	12.0	28.0	7.3
Resource-rich FCS	48.3	48.1	27.6
Landlocked FCS	10.9	7.4	8.5
Small island FCS	2.5	8.3	0.4
Core (or always) FCS	43.6	53.1	71.2
Transitional FCS	40.5	46.8	28.8
Conflict FCS	35.8	36.9	11.5
Fragility FCS	52.9	36.1	36.3

Source: International Finance Corporation, Multilateral Investment Guarantee Agency, and Independent Evaluation Group staff calculations.

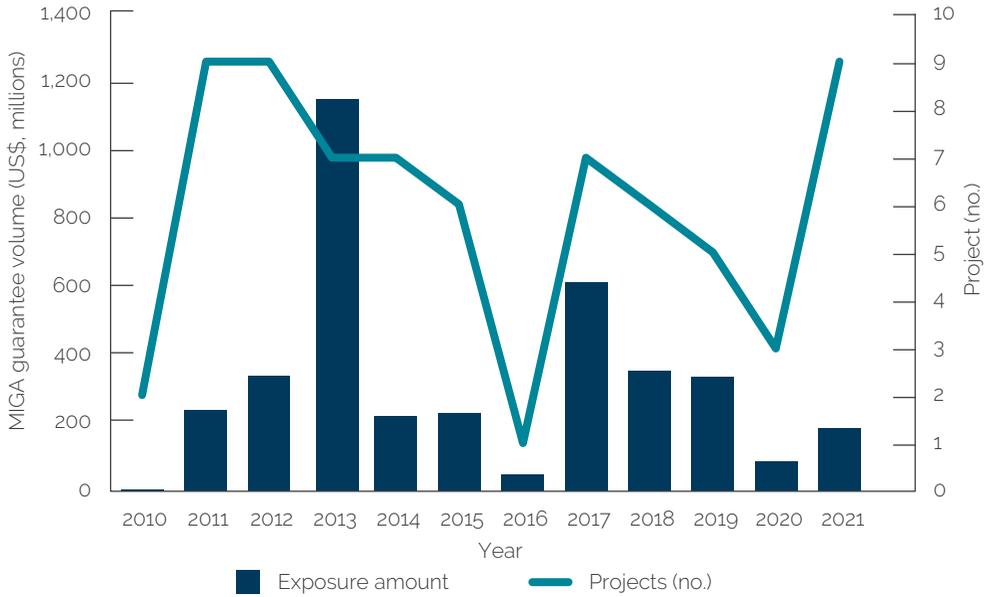
Note: Several typologies overlap, and totals exceed 100 percent. FCS = fragile and conflict-affected situations; FDI = foreign direct investment; FY = fiscal year; IDA = International Development Association; IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency.

Short-term finance has been another mode of IFC engagement in FCS. Short-term financing increased significantly in FY20 as part of IFC's COVID-19 response and reflects IFC's extensive use of the existing platforms or programs (including with funds from the PSW).

Beyond commitments on its own account, IFC has mobilized more than \$6.6 billion in private capital during FY10–21 in FCS. A significant share of mobilization was for infrastructure projects (\$5 billion). One project alone accounted for almost half of the mobilization, the Nacala Corridor infrastructure project in Mozambique committed in FY18. A further \$836 million was mobilized for public-private partnerships, and \$525 million in the Financial Institutions Group. Over the entire period, the share of mobilized capital in FCS was 7 percent of IFC's total mobilization.

MIGA's guarantee volume has not shown an upward trend (figure 2.2). During FY10–21, an average of 9 percent of MIGA's new guarantee volume, or 17 percent of projects, was in FCS. Annual gross exposure averaged \$317 million, with two outlier years (2013 and 2017) because of large infrastructure projects in Angola, Côte d'Ivoire, and Myanmar. MIGA's support to FCS did not have an upward trend, despite the introduction in 2013 of MIGA's Conflict-Affected and Fragile Economies Facility (CAFEF),⁵ providing a first loss guarantee that aimed to catalyze private capital flows from investors and financial institutions to FCS by mobilizing noncommercial risk insurance from MIGA and the global insurance industry. By type of risk coverage, insurance against war and civil disturbance represented 75 percent of all MIGA PRI in FCS and was often combined with coverage against transfer restriction and expropriation.

Figure 2.2. MIGA Guarantees in FCS, FY2010–21



Source: Multilateral Investment Guarantee Agency and Independent Evaluation Group staff calculations.

Note: FCS = fragile and conflict-affected situations; FY = fiscal year; MIGA = Multilateral Investment Guarantee Agency.

In addition to its guarantee issuance, MIGA’s direct mobilization of private capital totaled \$3.78 billion in FCS countries in FY10–21.⁶ Over the period, the share of directly mobilized capital in FCS countries represented 9 per cent of total private direct mobilization reported by MIGA.

Sector Focus of IFC and MIGA-Supported Investments in FCS

IFC’s investment volume in FCS is driven by a limited number of infrastructure projects. Half of IFC’s long-term finance commitments support infrastructure projects, double the share in non-FCS countries (table 2.2). This reflects the financing needs in this capital-intensive sector, but it may indicate challenges in finding suitable investments and sponsors in other sectors. By number of projects, the Financial Institutions Group dominates, with 39 percent of all projects. This reflects the prevalence of larger-size infrastructure projects compared with the relatively smaller size of investments in the Financial Institutions Group and in manufacturing, agribusiness, and services, including support for microfinance institutions and leasing projects.

Table 2.2. IFC Long-Term Investments in FCS and Non-FCS, by Sector (FY10–21)

IFC Industry Group	FCS (US\$, millions)	Share in FCS (%)	Non-FCS (US\$, millions)	Share in Non-FCS (%)
Infrastructure	2,501	50	24,772	23
Financial Institutions Group	1,382	27	45,451	43
Manufacturing, Agribusiness, and Services	1,107	22	30,387	28
Disruptive Technologies and Funds	56	1	6,184	6

Sources: International Finance Corporation and Independent Evaluation Group staff calculations.

Note: FCS = fragile and conflict-affected situations; FY = fiscal year; IFC = International Finance Corporation.

MIGA’s FCS portfolio differs from its non-FCS portfolio (table 2.3). Like IFC, the infrastructure sector dominates MIGA’s business volume in FCS (73 percent), whereas a small portion of gross exposure supports guarantees in the financial sector (16 percent)—the most important sector by volume in non-FCS countries. However, by number of projects, almost half of the MIGA-supported projects in FCS are in manufacturing, agribusiness, and services (44 percent). MIGA’s average gross exposure in FCS is less than half that in non-FCS (\$32 million versus \$84 million).

Compared with IFC investment activity, IFC advisory services for private firms and governments are concentrated more highly in FCS. FCS countries account for 16 percent of overall IFC advisory projects. In addition to advisory services to private firms, IFC—often in collaboration with the World Bank—has also supported business-enabling activities with governments aimed at addressing barriers to private sector growth and removing impediments to FDI. About 53 percent of IFC advisory services projects overall are directed to private firms, but this ratio is 49 percent in FCS countries.

Table 2.3. MIGA Guarantees in FCS and Non-FCS, by Sector (FY10–21)

Sector	FCS (US\$, millions)	Share in FCS (%)	Non-FCS (US\$, millions)	Share in Non-FCS (%)
Infrastructure and energy	2,764	73	18,160	45
Manufacturing, agribusiness, and services	449	12	3,151	8
Financial	591	16	18,375	47

Sources: MIGA and Independent Evaluation Group staff calculations.

Note: Infrastructure and energy includes the mining, oil, and gas sectors. Percentage columns may not total to 100 owing to rounding error. FCS = fragile and conflict-affected situations; FY = fiscal year; MIGA = Multilateral Investment Guarantee Agency.

Tailored Instruments and Initiatives

Over the evaluation period, IFC has deployed modalities and instruments, including some designed specifically for FCS countries. Under the IFC 3.0 strategy (IFC 2017), IFC has deployed diagnostic tools to support its engagement in FCS, including Country Private Sector Diagnostics, IFC country strategies, and the Anticipated Impact Measurement and Monitoring framework. It has implemented new approaches, such as Creating Markets (which promotes sector reform, standardization, building capacity, and demonstration to expand investment opportunities in key sectors); de-risking (PSW, guarantees, and blended finance resources); and upstream support (IFC 2016a). The FCV strategy (World Bank 2020b) flagged several adjustments in IFC's approach to FCS, including (i) a differentiated approach aiming to tailor investment and advisory services to the different needs and capacities of each type of FCS; (ii) increased upstream engagement; (iii) enhanced inclusion and conflict sensitivity; (iv) a portfolio approach; (v) enhanced Bank Group collaboration; (vi) enhanced risk mitigation, in particular through blended finance solutions, including IDA PSW; (vii) streamlined programmatic approaches; (viii) greater collaboration with other DFIs; and (ix) strengthened staff presence and incentives. It is, however, too early to assess the impact of many of these recent initiatives.

IFC and the World Bank sought to support private investment indirectly by helping improve the business, legal, and regulatory environment through advisory services to governments. IFC also launched in 2008 the CASA initiative, a trust-funded program focused on FCS in Africa to help Africa's FCS rebuild their private sectors, create jobs, and attract investment. More recently, IFC added the Creating Markets Advisory Window as a funding source for advisory work in IDA and FCS countries.

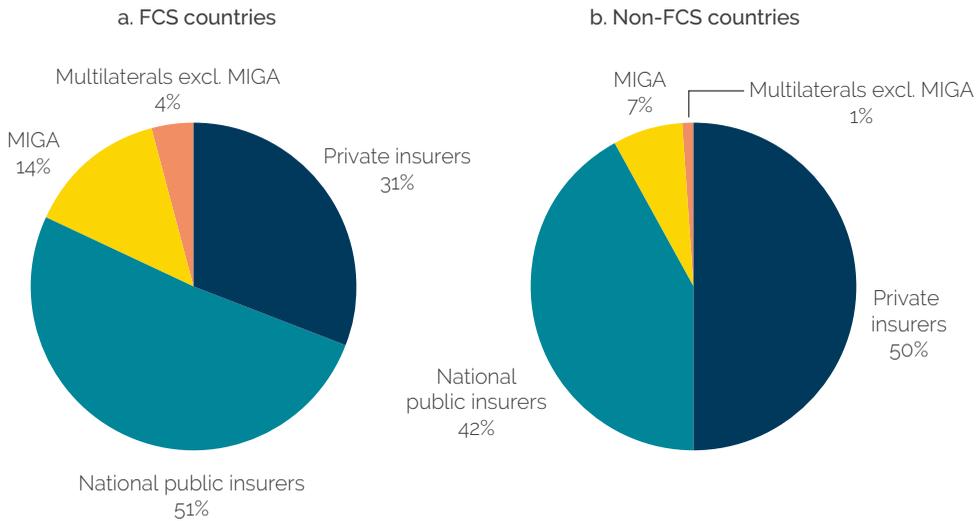
MIGA has mainly deployed one product in FCS countries—PRI—while using its nonhonoring insurance product once.⁷ MIGA's political risk instrument offers guarantees against certain noncommercial risks, such as war and civil disturbance, expropriation, and transfer restrictions. The minimal use of the nonhonoring insurance is due to MIGA's sovereign credit risk requirement (BB-) for that product.⁸ In addition, MIGA has not deployed one of its PRI programs since FY17, the Small Investment Program (SIP), which is intended to provide streamlined, fixed pricing support to small and less-complex investments, especially in IDA, FCS, and South-South investments.⁹ SIP projects account for approximately 20 percent of MIGA's portfolio in FCS (13 of the 62 FCS projects in FY10–20).

However, MIGA has adapted its instrument mix in FCS through several initiatives. It created the multicountry CAFEF in 2013 with the capacity to increase its guarantee volume in FCS by \$500 million. The PSW also supports MIGA's engagement in FCS, especially under its \$500 million MIGA Guarantee Facility. In addition, the existing West Bank and Gaza Investment Guarantee Fund exceptionally allows coverage for local investment¹⁰ that has met demand, indicating its usefulness as a product extension in an FCS context. Coverage of local investment is generally not permissible under MIGA's Convention because of the need to rely on bilateral investment treaties as a risk mitigation tool. However, MIGA's experience under the West Bank and Gaza Investment Guarantee Fund offers lessons about the benefit of providing coverage to credible local investors that can drive foreign investments in FCS.¹¹

MIGA's share of new investment insurance business in FCS is higher compared with other multilateral insurers. During the past 10 calendar years (2010–20), MIGA's average share of new PRI issued to support investments in FCS (14 percent)¹² exceeded that of other multilateral members (4 percent)

of the Berne Union. MIGA's share of the PRI market is also greater in FCS than in non-FCS countries, indicating MIGA's comparative advantage in risky markets and a potentially more important role for MIGA in FCS markets than non-FCS markets (figure 2.3). However, private and national public investment insurers still account for the substantial share of investment insurance offered in FCS countries.

Figure 2.3. MIGA's Share of New Political Risk Insurance in FCS and Non-FCS (2010–20)



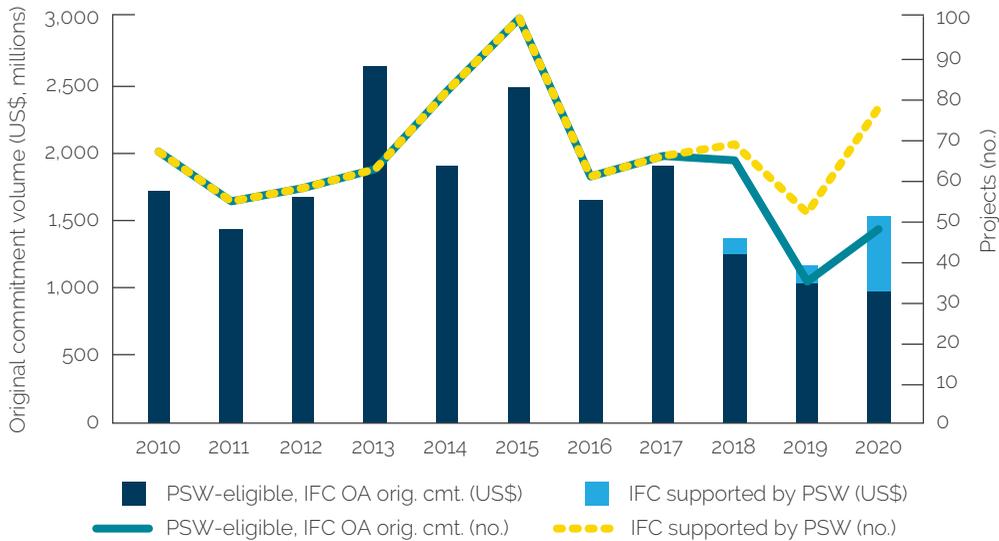
Source: Berne Union Investment Insurance database and Independent Evaluation Group calculations.

Note: (i) The above charts exclude new political risk insurance issued by Sinosure (China's national export credit and export insurance agency), whose share averaged 64 percent of new business issued by Berne Union members in calendar years 2010–20. (ii) Berne Union data are reported by calendar year. FCS = fragile and conflict-affected situations; MIGA = Multilateral Investment Guarantee Agency.

IFC and MIGA deploy blended finance instruments that can help develop the private sector by mitigating financial risks. Blended finance facilities deployed in FCS include the Global Agriculture and Food Security Program, the Global SME Finance Facility, and climate and gender inclusion. The PSW is the Bank Group's most recent and largest blended finance instrument to support private investments in IDA and FCS countries. The PSW's objective is to mobilize private sector investments in underserved sectors and markets in the poorest and most fragile IDA countries. It is designed to de-risk investments to make them more commercially viable or to limit IFC's or MIGA's own exposure to project risk.

However, the PSW has not contributed to an increase of business volume in PSW-eligible countries during the 18th Replenishment of IDA (IDA18; figure 2.4). PSW participation showed some positive effects in allowing the institutions to enter new markets or sectors. But IFC commitments and MIGA guarantee volumes in eligible countries remained relatively stable during IDA18, and IFC’s and MIGA’s usage of the PSW has been well below the original IDA18-allocated amounts. Under IDA18, which spanned FY18–20, \$1.37 billion in PSW funds were approved for investment, equal to 55 percent of IDA funds allocated (\$2.5 billion) for the PSW. Most approvals occurred in the final quarter of FY20, coinciding with the Bank Group’s COVID-19 crisis response. Contributing factors included strict eligibility criteria, limited pipeline, longer gestation period for projects, and the start-up of PSW in IDA18 (World Bank 2021b). Regarding the concessionality¹³ of the PSW, a robust process determines the subsidies needed to make IFC and MIGA projects more commercially viable, emphasizing minimum concessionality.

Figure 2.4. IFC Commitment Volumes and Number of Projects in PSW-Eligible Countries for Long-Term and Short-Term Finance, Own Account, FY2010–20



Sources: International Finance Corporation and Independent Evaluation Group staff calculations.

Note: The commitment and project data exclude regional projects that may benefit PSW-eligible countries partially. Cmt. = commitment; FY = fiscal year; IFC = International Finance Corporation; OA = own account; orig. = original; PSW = Private Sector Window.

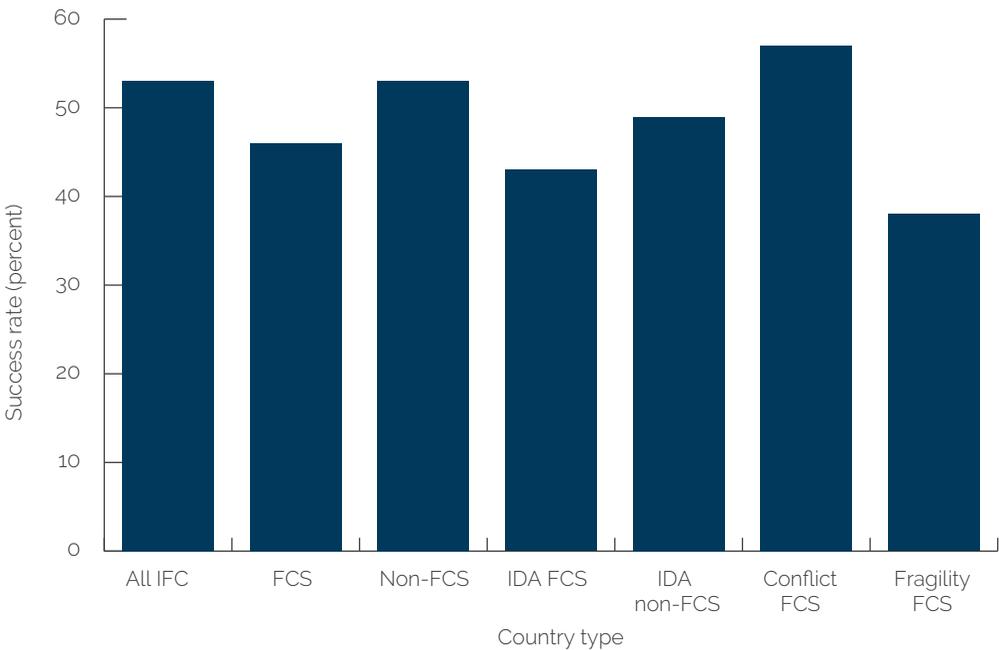
Achievement of Development Outcomes in FCS

Project Outcomes

IEG assessed development outcomes using outcome ratings of evaluated IFC and MIGA projects and findings from case studies. Development outcome ratings for IFC and MIGA projects are synthesis ratings assessing the project performance in four dimensions: business success, contribution to economic sustainability, E&S effects, and private sector development impacts.

IFC's development outcome ratings in FCS have been like those in non-FCS countries. Forty-six percent of projects in FCS have positive outcome ratings, compared with 53 percent in the rest of the portfolio. This is based on 59 evaluated IFC FCS projects and 817 non-FCS projects (figure 2.5).

Figure 2.5. IFC Development Outcomes, 2010–2020



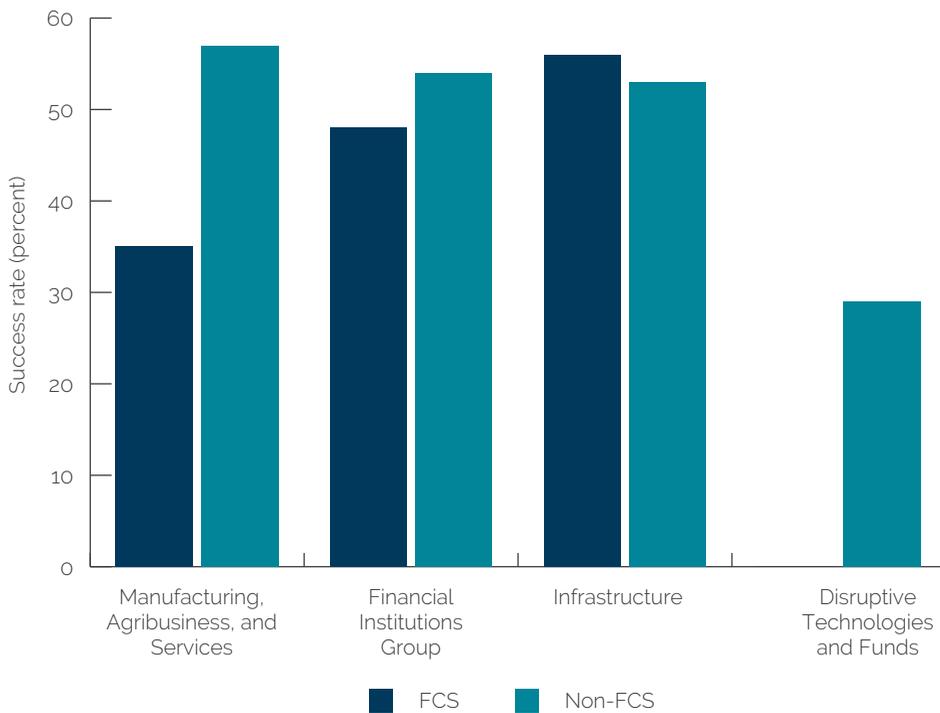
Source: Independent Evaluation Group staff calculations.

Note: FCS = fragile and conflict-affected situations; IDA = International Development Association; IFC = International Finance Corporation.

Determinants of the performance of IFC projects in FCS include the nature of the sector, the investment size, the size of the economy, quality of clients, client characteristics (new or repeat), and the quality of IFC's assessment.

Infrastructure projects in FCS performed well (56 percent; figure 2.6), often using internationally experienced project sponsors or project developers. By contrast, only 35 percent of the evaluated Manufacturing, Agribusiness, and Services projects in FCS were rated as mostly successful or higher, driven mostly by low ratings in agribusiness and the group’s other subsectors, whereas manufacturing projects in FCS performed relatively strongly. Financial Institutions Group projects performed similarly in FCS and non-FCS countries, despite differences in the composition of the group’s portfolios, such as the prevalence of smaller, less-sophisticated financial institutions (microfinance institutions and leasing companies) in FCS.

Figure 2.6. IFC Development Outcomes by Sector, 2010–2020



Source: Independent Evaluation Group staff calculations.

Note: FCS = fragile and conflict-affected situations; IFC = International Finance Corporation.

The size of the country and the investment are correlated with performance. Evaluated projects in larger FCS countries (by size of the population) performed better than those in midsize countries (60 percent versus 35 percent) or small economies (35 percent). A similar pattern emerges for the size of IFC commitment. Relatively large IFC investments (more than \$35 million in

commitments) perform well (67 percent) compared with medium and small investments (46 percent and 36 percent, respectively).

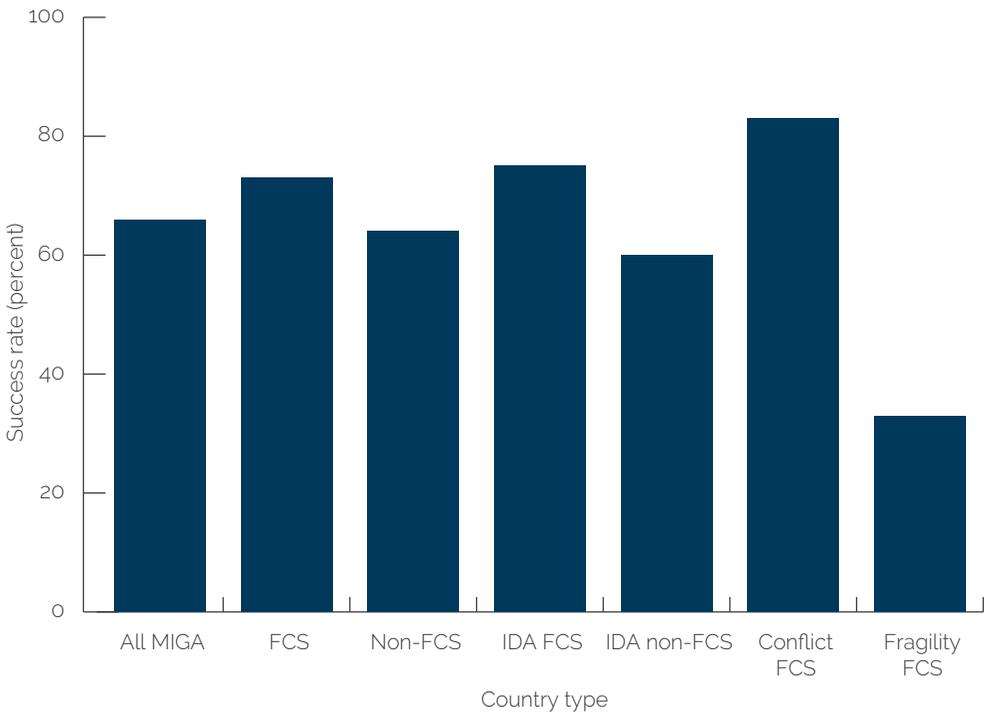
The performance of projects in FCS involving repeat clients is stronger than one-off projects. Thirty-nine percent of IFC's projects in FCS are with repeat clients. As is the case for IFC projects overall, repeat projects perform significantly better than those with one-off clients (84 percent versus 29 percent), contributing to IFC's results in FCS. For example, the ACLEDA Bank project in Myanmar built on earlier IFC investments in Cambodia and the Lao People's Democratic Republic. IFC's engagement with the ACLEDA Group began in 2000 with an equity investment in ACLEDA Cambodia, where IFC helped ACLEDA build its operational base and grow into the largest financial institution. IFC then supported ACLEDA's regional expansion into the Lao People's Democratic Republic in 2008 and Myanmar in 2013, where it is now the sixth largest microfinance institution. However, the SolTuna Capex project in the Solomon Islands was IFC's first engagement with the sponsor, one of the world's largest tuna suppliers. Although extensive IFC advisory services on E&S and gender supported the project (along with complementary World Bank policy initiatives), a change in ownership led to the loan being prepaid due to the new owner's access to cheaper financial resources.

Despite this development outcome performance, a key challenge for IFC in FCS contexts remains ensuring additionality,¹⁴ particularly in follow-on projects with well-established sponsors. For example, in the Gulftainer II project (involving the development, construction, and operation of an inland container depot and logistics center in Iraq), IFC's stated expected additionality comprised provision of a long-term loan (up to 11 years) that was not available from commercial banks, as well as IFC's ability to influence the client to undertake measures to comply fully with E&S standards. However, IEG's evaluation noted that the company prepaid its loan in 2 years. In addition, the project already complied with IFC E&S standards. IFC's investment also had a corporate guarantee from the United Arab Emirates-based company, removing Iraq country risk, and included an upside "sweetener." In these circumstances, alternative commercial finance would likely have been available for the project. Notwithstanding the project's location in an FCS, IFC's low additionality suggests that the investment and development benefits would have occurred even without IFC's investment.

The development effectiveness of IFC advisory services is rated lower in FCS countries than in non-FCS countries. FCS advisory services projects were rated successful in 47 percent of cases compared with 56 percent of non-FCS advisory services projects. FCS projects were also rated somewhat lower for their strategic relevance.

Evaluated MIGA projects in FCS countries performed better than in non-FCS countries. Seventy-three percent (16 of 22) of evaluated FCS projects were rated satisfactory or better for their development outcome, which measures the project's business performance, economic sustainability, E&S effects, and contribution to private sector development.¹⁵ By contrast, 64 percent (72 of 112) of evaluated projects in non-FCS countries (figure 2.7) were rated satisfactory or better in achieving their development outcomes. Although the small number of evaluated projects in FCS precludes cross-country or cross-sector inferences (table 2.4), this set of projects outperformed evaluated projects in non-FCS countries in three of the four development outcome subindicators, namely business performance, economic sustainability, and contribution to private sector development. Evaluated projects in non-FCS countries outperformed projects in FCS in their E&S effects: 75 percent of evaluated projects in non-FCS were rated satisfactory or better compared with 65 percent (11 of the 17 projects with E&S effects rating). Evaluations of MIGA projects indicate that the project sponsor's experience, technical expertise, financial capacity, and knowledge of local conditions are critical factors in operating successfully in FCS, as these traits have ramifications for project design and operation in risky and uncertain environments. The need for proper assessment and monitoring by MIGA of conflict and fragility risks in addition to sector risks are also lessons gleaned from the evaluated projects.

Figure 2.7. MIGA Development Outcomes



Source: Independent Evaluation Group staff calculations.

Note: FCS = fragile and conflict-affected situations; IDA = International Development Association; MIGA = Multilateral Investment Guarantee Agency.

Table 2.4. MIGA Development Outcomes by Sector, FY2010–2020 (percent)

Sector	ALL MIGA	FCS	Non-FCS	IDA FCS
Agriculture, manufacturing, and services	72	82	68	80
Infrastructure and energy	68	64	69	70
Financial	60	—	60	—

Source: Independent Evaluation Group staff calculations.

Note: FCS = fragile and conflict-affected situations; FY = fiscal year; IDA = International Development Association; MIGA = Multilateral Investment Guarantee Agency.

However, the MIGA FCS projects that are supported by the SIP are not evaluated by IEG or MIGA, although this instrument is deemed highly relevant to MIGA’s engagement in FCS. MIGA’s project evaluation program does not systematically cover SIP-supported projects, although they made up approx-

imately 20 percent of MIGA's guarantee projects in FCS (13 of the 62 FCS projects in FY10–20). The lack of evidence about the SIP projects' outcomes creates a knowledge gap and limits the potential for learning from this set of projects in FCS. Evidence from one evaluated project indicated the feasibility of covering SIPs through MIGA's evaluation program, yielding useful lessons. Learning from recent SIP experience can help inform MIGA's plan to streamline and potentially scale up the program as part of its business model in IDA FCS countries, which is outlined in the Bank Group FCV strategy.¹⁶

MIGA relied on repeat clients for its business in FCS, and those projects performed well. More than half of MIGA's FCS projects involve repeat clients, and their success rate is 70 percent. For example, MIGA supported a series of logistics projects providing border inspection equipment in several African countries, most of which performed well. Appendix C provides outcome ratings for IFC and MIGA projects.

The high outcome ratings also reflect MIGA's focus on working with strong sponsors. Strong performance was associated with sophisticated international companies and guarantee holders with experience in implementing projects in developing markets. Unlike IFC, which can also work with some smaller, local investors, MIGA insures foreign companies' cross-border investments. Foreign investors tend to be better capitalized and have larger asset bases and diversified revenue sources compared with local firms.

Among the case studies conducted for the evaluation, three-fourths of IFC and MIGA projects studied in depth experienced conflict- or fragility-related FCS risks, three-fourths experienced challenges related to government capacity, and all four financial intermediary projects faced weak or underdeveloped policy and enabling environments. FCS risks and constraints were rated significant or high in six cases, such as political violence against a religious minority state in Myanmar and severe political instability that occurred during the project life cycle in the Democratic Republic of Congo. The project team in the Democratic Republic of Congo highlighted multiple development challenges, ranging from weak institutions and poor governance to persistent violent conflict among militias and with government forces (particularly in the eastern regions) to a growing youth bulge without adequate access to job opportunities. A venture fund had intended to make in-

vestments in both the Democratic Republic of Congo and the Central African Republic, but when a full civil war broke out in the Central African Republic soon after the fund's inception, the fund focused its activities on the Democratic Republic of Congo.

Most projects experienced challenges related to government capacity. Inadequate government capacity and governance risks were significant in four projects and moderate in another five. For projects with a significant or high rating, instances involving government capacity and governance issues had a bigger impact or were more difficult to mitigate. The Rawbank project in the Democratic Republic of Congo struggled because of a lack of regulatory and financial infrastructure to facilitate access to credit in the Democratic Republic of Congo, which also lacked a properly functioning commercial legal system to resolve disputes for small and medium enterprises (SMEs) and effective collateral and credit information systems for SMEs. In Myanmar, a change in administration after the 2015 election led to difficulties in acquiring government approval for several key project documents for an independent power producer (IPP) project, resulting in significant project delays. Other than this competitively tendered project, the government's preference in the power and other infrastructure sectors was the country's traditional practice of using direct negotiations and unsolicited proposals.

Achievement of Environmental, Social, and Gender Objectives

Environmental, social, and gender objectives are important aspects of IFC's and MIGA's value addition with their clients, due to weak public and private capacity in FCS and their link to make private investments more sustainable and inclusive. The E&S performance for evaluated projects was weaker in FCS countries than in non-FCS countries. Fifty-five percent of IFC projects in FCS were rated mainly satisfactory or above versus 69 percent in non-FCS. For MIGA, two-thirds of evaluated FCS projects were rated satisfactory (versus 75 percent in non-FCS).

The E&S issues encountered in FCS countries are largely like those in low-income, non-FCS countries. For example, in the Solomon Islands, the

Tina River Hydropower Development Project is located on forest and agricultural lands customarily owned by five local tribes. Although no households were displaced, the land was procured under a land lease agreement with a joint venture between the landowning tribes and the government, with payments going into a unique benefit-sharing mechanism to benefit the wider community. The Azito III project in Côte d’Ivoire established a similar local development fund to compensate villagers for the government’s inability to find suitable replacement land to resolve legacy claims dating from the project’s first phase more than a decade earlier. Two of the financial sector projects in the sample—Rawbank in Democratic Republic of Congo and Société Ivoirienne de Banques/Cargill in Côte d’Ivoire—faced the same types of E&S compliance monitoring and reporting issues that financial intermediary projects in non-FCS countries encounter frequently.

Regarding the E&S effects, all projects in the evaluation sample rated E&S factors as having negligible or moderate effects except for three projects, for which no opinion was possible. However, projects with a moderate rating noted challenges that were difficult to address. For example, the Myingyan IPP project (a 225-megawatt gas-fired power plant in Myanmar) faced scrutiny from local and international nongovernmental organizations on the transparency of the power purchase agreement’s terms and on E&S matters, which the lender’s E&S specialists considered to be technically unfounded. Despite this, the lenders recommended that the client take concrete measures to improve stakeholder communications and build mutual trust with local communities to mitigate the concerns.

IFC and MIGA apply the same E&S performance standards in FCS countries as in non-FCS countries. Considering the more challenging operating conditions in FCS, the Bank Group has usually taken the lead in supporting E&S-related policy reforms and institutional capacity strengthening. IFC takes the lead where IFC and MIGA have a joint project. IFC and MIGA have also adapted the intensity of monitoring and supervision to the client’s E&S risk review rating. The evaluation found little information on projects that were deemed ineligible for support because of E&S issues or risk.

The main factor affecting E&S performance is sponsor commitment and capacity, so IFC and MIGA must assess that factor and any capacity gaps

carefully as part of their client selection process. For example, in the agribusiness sector, IFC is looking for committed clients to work on supply chain E&S issues that in the past had tended to rely on sustainability certification (by the UTZ certification program, the Rainforest Alliance, and so on). More recently, the integrity of certification has been compromised. The certifications have lost credibility and reached saturation from the consumer demand side. IFC now tends to help clients strengthen their own internal standards, sourcing controls, and surveillance systems, coupled with independent verification. In Côte d'Ivoire, it pursued such approaches with Cargill and other clients (Olam International and Barry Callebaut).

The effectiveness in mitigating E&S risks with IFC projects in FCS has been mixed. Some projects have experienced significant improvements in client E&S management system capacity (for example, AUB Iraq, Nafith Iraq, Rawbank DRC, SolTuna, and the Tina River Hydropower Development Project, with the latter two in the Solomon Islands), but projects encountered challenges with legacy land acquisition issues (Azito) and in monitoring and reporting (Cargill in Côte d'Ivoire and Myingyan in Myanmar).

IFC's focus on gender issues in FCS is reflected in various corporate policies and strategy documents. Gender is emphasized as a key strategic cross-cutting priority under IFC 3.0 and in the World Bank Group's FCV strategy. During FY10–20, the IFC portfolio included 14 gender-flagged projects in FCS countries, accounting for \$328 million in commitments. Overall, even though the proportion of IFC's gender-flagged projects and commitment volume in FCS remained relatively low, a broad spectrum of gender issues was addressed.

Expanded advisory services were instrumental in enabling IFC to engage a few of its FCS clients on gender issues. The Pacific WINvest Advisory Services Project (which IFC and the World Bank implemented jointly) directly supported IFC's SolTuna project in the Solomon Islands to identify and implement gender-specific practices to improve conditions for their female employees to solve absenteeism that was affecting SolTuna's financial results. By assessing and measuring conditions before and after the intervention, the program could track and document improvements over time. In Mali, the Mali Shi project (approved in 2019) is complemented by advisory

services that offer training in business skills, finance, and management to members of 100 women-led cooperatives that work with Mali Shi. The project is expected to source shea nut kernels locally and thereby provide access to markets and improved income to about 120,000 shea collectors, about 95 percent of whom are women.

Achievement of Private Sector Development and Broader Development Outcomes

Implementing successful projects in FCS goes beyond the projects' direct impact and the demonstration effects for future, similar projects. Overall, two-thirds of evaluated IFC projects in FCS achieved satisfactory ratings for their private sector development impact, which assesses the effects beyond the investment project. This rating is similar to that for the share of non-FCS projects. Seventy-seven percent of MIGA's evaluated guarantees in FCS were rated satisfactory for their contribution to private sector development.¹⁷

Among the country and project cases reviewed in depth, most projects contributed to private sector development, including evidence of increased private investment beyond what IFC and MIGA facilitated, development of local markets, demonstration effects, and strengthening of corporate governance.

The review of evaluative evidence for IFC and MIGA projects indicates limited demonstration effects. In some sectors, the demonstration effect was limited, given the projects' small size and insular nature relative to the country's needs and because of the existence of few potential clients with whom IFC could work. This includes some banking operations that did not expand into underserved client segments as anticipated. In the Democratic Republic of Congo, for example, because of poor critical infrastructure or a lack of any infrastructure, the domestic market was often limited to urban concentrations, and therefore the development impact of IFC's and MIGA's projects was limited to Kinshasa and a few other cities, with little or no penetration in other urban or rural communities.

The following examples illustrate effects beyond what the project intended, supporting private sector development and broader sector objectives, based on country and project case evidence in FCS:

- » In the financial sector, IFC's sustained investment and significant advisory program with a long-standing regional partner, ACLEDA, helped establish the first commercially oriented microfinance bank in Myanmar. The ACLEDA Myanmar Microfinance Institution (AMM) project saw commercial success and helped demonstrate good microfinance practices. As the first commercially oriented microfinance institution in Myanmar, AMM had a demonstration effect that encouraged other entrants and helped increase competition in the sector. Other lenders replicated the structure of AMM's IFC loan. AMM also helped demonstrate good practices in microfinance, including in responsible finance and transitioning from basic group lending to more advanced individual credit lending. As of May 2020, AMM had an outstanding loan portfolio of more than \$36 million and more than 100,000 outstanding loans, including loans for the agriculture sector, urban micro enterprises, and women. A parallel Bank Group support helped improve the regulatory environment for microfinance that improved the operating environment for microfinance institutions substantially after 2016. IFC also provided an industry-wide training program in the microfinance sector targeted at both regulators and micro finance institutions.
- » Although earlier SME ventures funds had weak financial sustainability, the Central Africa SME Fund had some demonstration effects and involved learning. The fund manager was able to raise a larger follow-on fund targeting FCS countries (the African Rivers Fund). The original fund also helped build local capacity on how to run a private equity fund. IFC launched second-generation SME ventures funds that are larger and seek to learn from the earlier experience. The IDA PSW SME Ventures Envelope was approved in 2019 to co-invest up to \$50 million from the PSW, with IFC expected to match that amount and other investors providing up to \$400 million. IDA PSW SME Ventures Envelope was set up to make private equity funds in PSW-eligible countries less risky to investors, including IFC, by including PSW as a subordinated equity investor, generally with an investment equal to that of IFC. As of the end of FY21, IDA PSW SME Ventures Envelope has been committed to seven funds, of which three used the subordination feature. The program includes a set of IFC advisory services targeting both the regulatory environment and support for fund managers and target investees.
- » In the power sector, the IFC- and MIGA-supported Myingyan power plant was linked to sector reform and was the first IPP in Myanmar to help raise

Myanmar's installed power generation capacity. The 225-megawatt gas-fired power plant in the Myingyan region was Myanmar's first international IPP tender in the country and included a set of commercially bankable documents (including the power purchase agreement) that were developed with IFC assistance. The project's development outcomes included increasing the country's overall power generation capacity by 6.2 percent from 2013 levels and helping to meet the power needs of approximately 5.3 million people.

- » In Myanmar, private participation in power generation increased substantially after the project, although its IPP framework was not replicated as expected. The project helped demonstrate that the country was open to private investment in the power sector. Between 2013 and 2018, FDI in the power sector amounted to \$14.6 billion, equivalent to 25 percent of total FDI during the period. Projects included gas to power, hydropower, emergency gas, and solar power. The share of installed capacity of privately owned power plants rose from 27 percent in 2008–09 to 44 percent in 2019. However, the projects that followed did not use the international competitive tender model developed for the Myingyan IPP. The government instead tended to use unsolicited proposals and direct negotiation in developing projects, maybe because of a change in government or limited capacity, or because of concerns about “fiscal burden.” Neither IFC nor MIGA has engaged in power generation in Myanmar since the Myingyan project.

Overall, there are limited systematic data available to assess broader project impacts beyond development outcomes and no information available on the projects' effects on resilience and conflict sensitivity. The review of sample projects found that job creation data, for example, are reported in less than half of the sample projects (5 of 12), only two sample projects report significant effects on gender equity, and two projects hint at some potential contribution to reduction of interethnic tensions.

Implications of Worsening Global Fragility and COVID-19

The increase in fragility and conflict during the past decade, exacerbated by COVID-19, have likely affected private sector activity and investment. The

past decade has seen an increase in violent conflict, forced displacement, and subregional fragility and conflict (for example, in the Sahel, Lake Chad, and Horn of Africa regions). Several countries experienced reversals of progress (Afghanistan, Chad, Ethiopia, Mali, Mozambique, and Myanmar). The increase in fragility and conflict risks has likely constrained cross-border investments, and though the local private sector can be remarkably resilient during conflict, it may downscale or become more informal because of conflict and the collapse of government services (World Bank 2013).

COVID-19 has exacerbated these trends with likely knock-on effects on IFC's and MIGA's portfolio. FCS countries face numerous constraints that undermine their ability to cope with the COVID-19 crisis, including weak government capacity to manage the response, underdeveloped health systems, and poor infrastructure. The disruption in more developed countries also results in negative spillovers because both remittances and the supply chains needed to deliver humanitarian aid, food, vaccines, and curative drugs are affected. The combined economic and social shocks can also worsen fragility risks.

IFC identified impacts of the pandemic across different sectors—from tourism and hospitality to textile manufacturing and infrastructure—caused by disruptions to global trade and supply chains, travel, and tourism. The financial sector experienced an increase in nonperforming loans, and the limited availability of credit may force micro, small, and medium enterprises to cease operations. In response, the Bank Group launched the COVID-19 Crisis Response, which includes IFC's \$8 billion COVID-19 Fast-Track Facility to respond to the trade and short-term (working capital) liquidity needs and address the real sector impacts on existing clients (IFC 2020c). The latest data indicate that the macroeconomic effects of COVID-19 on FCS have been severe but also consistent with developing countries as a whole and varying significantly from country to country.¹⁸ Taken together, the disruptions and increase in uncertainty in FCS economies are likely to affect IFC's and MIGA's ability to scale up business and to reach financial and development benchmarks for projects in their existing portfolios.

¹ This commitment combines volume growth in all International Development Association and fragile and conflict-affected situations (FCS) countries, with the target presented as an average of FCS and IDA17 (17th Replenishment of IDA) for fiscal year (FY)21–23.

² The shares of commitments and projects have been calculated excluding International Finance Corporation (IFC) global and regional projects from the numerator and denominator.

³ For the Harmonized List of Fragile Situations, see appendix D, and for the Classification of Fragile and Conflict-Affected Situations, see <https://www.worldbank.org/en/topic/fragility/conflictviolence/brief/harmonized-list-of-fragile-situations>.

⁴ IFC's reporting methodology was formalized in Guidance on Country Reporting (July 1, 2019).

⁵ The Conflict-Affected and Fragile Economies Facility is a donor partner trust fund administered by the Multilateral Investment Guarantee Agency (MIGA) that provides a first loss layer for eligible cross-border investments in FCS countries, and MIGA shares a portion of the risk in the initial loss layer. Eligible coverages may include transfer/convertibility risk, expropriation, breach of contract, war and civil disturbance, nonhonoring of sovereign financial obligations, and any noncommercial risks approved by the MIGA Board pursuant to article 11(b) of the MIGA Convention and paragraph 1.53 of the Operational Regulations.

⁶ MIGA mobilization numbers are based on the World Bank Group scorecard. From FY16 onward, estimations are based on the multilateral development banks' Methodology for Private Mobilization. For the FY10–15 period, MIGA gross issuance is used as a proxy for private direct mobilization (while private indirect mobilization is not available).

⁷ MIGA's nonhonoring insurance product is insurance against nonhonoring of financial obligations by sovereign and subsovereign entities and state-owned enterprises. It provides protection against losses resulting from the failure of a sovereign entity, subsovereign entity (that is, city, municipality, or region), state-owned enterprise, and, more recently, regional development bank to make a payment when due under an unconditional and irrevocable financial payment obligation or guarantee related to a MIGA-insured investment. The nonhonoring product supports purely public sector undertakings or projects.

⁸ MIGA may also have limited scope for deploying its nonhonoring insurance product to investments in FCS countries because of the limits imposed by International Monetary Fund–World Bank–Group of Twenty Debt Service Suspension Initiative on the countries experiencing high debt distress, most of which are FCS.

⁹ The objectives of MIGA's Small Investment Program when the program was presented to the MIGA Board in 2005 were to (i) increase MIGA's direct support to small and medium enterprises; (ii) encourage small and medium investors; and (iii) help MIGA reach investors from nonindustrial countries (i.e., South-South investors) by offering fixed, subsidized pricing and reduced processing time through delegated Board approval of MIGA's director of guarantee operations/senior management team.

¹⁰ Under the trust fund, MIGA can provide political risk insurance to investments originating from any of its member countries and destined for the West Bank and Gaza. Local investments denominated in freely usable currency are also eligible. Eligible investors include companies or nationals of MIGA member countries; companies or nationals of members of multilateral organizations that are sponsors; or Palestinian residents or companies incorporated in the West Bank and Gaza. *Source:* West Bank and Gaza Investment Guarantee Fund Brochure.

¹¹ Conflict-Affected and Fragile Economies Facility, Donor's Report H1 FY19, July 1, 2018, to December 31, 2018; and Conflict-Affected and Fragile Economies Facility Mid-Term Review (draft).

¹² This average share excludes the amounts issued by Sinosure (China's national export credit and credit insurance agency), which dominated all other Berne Union members in new political risk insurance business in both FCS and non-FCS countries during the 10-calendar-year period 2010–20. Including Sinosure, the shares of private insurers, other national insurers, and multilateral insurers including MIGA shrinks considerably. As an example, MIGA's average share is reduced to 5 percent from 14 percent; private insurers' share of new business in FCS shrinks to 11 percent from 31 percent.

¹³ Concessionality is based on the difference between (i) a reference price (which can be a market price, if available; the price is calculated using IFC's pricing model, which comprises three main elements of risk, cost, and net profit, or a negotiated price with the client) and (ii) the concessional price being charged by the blended concessional finance co-investment. IFC calculates the level of concessionality as a percentage of total project cost: $\text{net present value of (reference price - concessional price) / total project cost} = \text{level of concessionality (expressed as a percentage of total project cost)}$.

¹⁴ Additionality is the unique support that IFC brings to a private investment project that is not typically offered by commercial sources of finance. Although related to an investment project, this additionality may take financial and/or nonfinancial forms. It is important to note that additionality is a threshold condition for IFC involvement in a project; it is not a

policy or an objective, but rather a requirement embedded in IFC's Articles of Agreement. IFC's role, as a public institution supporting the private sector, is to provide services that are additional to those provided by private markets, while operating in a commercial manner. Indeed, article III, section 3 states that "the Corporation shall not undertake any financing for which in its opinion sufficient private capital could be obtained on reasonable terms" (https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/ifc+governance/articles).

¹⁵ The development outcome subindicator for contribution to private sector development was changed to foreign investment effects in June 2020.

¹⁶ Refer also to Conflict-Affected and Fragile Economies Facility, Donor's Report H1 FY20, July 1, 2019, to December 31, 2019, paragraph 17.

¹⁷ MIGA project evaluations included an indicator assessing projects' contribution to private sector development during most of the evaluation period; the indicator was changed in 2020 to capture foreign investment effects.

¹⁸ According to the World Development Indicators database, remittances in FCS have declined from a high of \$54.7 billion in 2019 to \$46.7 billion in 2020. However, in the same year, both personal transfers and secondary income as a whole have increased slightly. The decline in gross domestic product, although more significant than in the world (5 percent for FCS versus 3.6 percent for the world), is driven by a few countries that have seen extreme declines (30 percent in Libya, 20 percent in Lebanon, and 10 percent in Iraq and Myanmar). With few exceptions, external debt has continued its increasing trend for FCS countries for which debt data are available.

3 | Key Factors Influencing IFC and MIGA Business Scale-Up and Effectiveness in FCS

Highlights

The diversity of characteristics and constraints in fragile and conflict-affected situations (FCS) countries highlights the need for differentiated strategies and approaches adapted to individual country typologies and building on tools such as Country Private Sector Diagnostics, International Finance Corporation (IFC) country strategies, and Country Partnership Frameworks.

Meeting the ambitious FCS business volume targets of IFC and MIGA (Multilateral Investment Guarantee Agency) would require broadening of their client bases to reach and build the capacity of local and international private investors not served by IFC and MIGA and to accept higher risks, and costs and longer time periods to gestate bankable projects.

Upstream engagement and advisory services (in the absence of international investors) can be instrumental in identifying eligible local or regional sponsors and building their capacity for project preparation using blended finance and other instruments to facilitate deal flow in FCS.

IFC's and MIGA's cost of doing business in FCS is significantly higher than in non-FCS countries and may disincentivize building FCS pipelines.

Investing in high-risk countries involves a trade-off with IFC's overall credit risk and calls for reassessing the risk management framework in FCS at the corporate level to align it better with the objectives of increasing business volumes in FCS.



World Bank Group-wide collaboration has helped address the multiple needs of countries emerging from protracted conflicts, reduce high business risk (including weaknesses in the business environment), and facilitate investments.



Weak incentives have been a constraint to expanding IFC's footprint and increasing its investments in FCS countries.

This chapter examines key factors that may be limiting IFC's and MIGA's ability to scale up their activities in FCS countries and, by implication, limiting their effectiveness in supporting private investment and achieving development impact. The World Bank Group's 2020 FCV strategy identified a set of key factors requiring the adjustment of IFC's and MIGA's business models. These include collaboration across the Bank Group and with DFIs; upstream engagements and business development efforts to identify and design new projects; the use of advisory services to address E&S risks, inclusion, and gender issues; the adaptation and selection of instruments; strengthened staff presence and incentives; enhanced risk mitigation; simplified and streamlined processes; and implementation of an appropriate monitoring and evaluation framework (IFC 2020b).

Based on the evidence gathered in this evaluation and on its main findings, this chapter explores the influence that a selection of seven factors linked strongly to those identified in the World Bank Group's 2020 FCV strategy may be having on the level of IFC and MIGA business activity in FCS. The chapter discusses the issues, links, and trade-offs among them. These factors are (i) country characteristics and constraints, (ii) the availability and quality of IFC and MIGA clients, (iii) the cost of doing business in FCS, (iv) credit risk and financial risk management in IFC and MIGA, (v) adaptation of instruments to FCS contexts, (vi) collaboration inside and outside the Bank Group, and (vii) staffing and institutional incentives.

Country Characteristics and Constraints

Most FCS countries are small and medium economies, which limits the potential volume of private investments. FCS countries include many landlocked, midsize, small, and island economies. Such economies tend to face more challenges in attracting foreign capital, they have small local markets, and project size is typically small. Larger economies tend to attract greater foreign investment flows and support larger IFC and MIGA investments, whereas smaller ones tend to require more work with smaller, less-sophisticated local companies. Only one FCS country (Lebanon) is a regional financial hub, and it, too, has been facing severe political and economic challenges.

Scaling up IFC and MIGA investments in FCS would require differentiated strategies, approaches, and instruments adapted to the variety of country

characteristics and constraints in FCS. A differentiated approach would involve diagnostic work to identify key constraints and opportunities for private sector engagement and to identify areas for upstream collaboration. IFC's and MIGA's strategies to invest in FCS might need to be informed by country diagnostic work that examines these constraints and characteristics to identify opportunities for diversifying the FCS portfolio and scaling up investments. Half of the FCS countries are resource rich, with distinct opportunities and challenges in attracting investment and generating broad-based growth. Small island developing states account for nearly one-quarter of FCS. For attracting private investments, these countries tend to face greater challenges associated with small local markets, physical remoteness, and vulnerability to shocks compared with those associated with security or political risk issues. To deepen their understanding of country characteristics and constraints, in 2018, IFC (and MIGA) launched a program of Country Private Sector Diagnostics¹ and IFC country strategies (box 3.1).

Box 3.1. Case Study Countries and Projects

The evaluation selected seven countries for case studies to represent different fragile and conflict-affected situations (FCS) typologies and encompass a range of country contexts. The sample included countries that the World Bank Group currently classifies as FCS (including Côte d'Ivoire, which graduated from the FCS list recently), conflict-affected or fragile, resource-rich, landlocked, and small island economies. The sample also included low-income and middle-income countries. These countries vary greatly in size, the strength of their institutions, business environment, rate of economic growth, and the size of foreign direct investment inflows they attract. The size and relative isolation of small island developing states create a different type of fragility.

The case studies' FCS risks include conflict and security risks, including ethnic and extremist violence; political instability; economic, political, and geographic isolation; extremely poor governance, corruption, and patronage-driven political system; weak capacity of the public sector; reliance on extractive industries or an export commodity; and demographic pressures and youth unemployment. Twelve projects cutting across sectors, modalities, and institutions were selected for in-depth reviews among the seven country case studies (appendix B).

Source: Independent Evaluation Group.

Availability and Quality of Clients

Meeting IFC's and MIGA's ambitious FCS business volume targets would require them to diversify their portfolios and client bases to reach and build the capacity of local private investors. The shortage of strong clients in FCS implies a need to go beyond the existing client pool to smaller local clients or regional clients and to adapt IFC's and MIGA's approaches and instruments to different client groups. IEG's findings indicate that IFC and MIGA can implement larger-scale projects successfully in FCS, often with experienced international firms and repeat clients, but they are reluctant to invest in smaller and riskier FCS countries. Some adaptation of the approach is evident in IFC's experience with micro, small, and medium enterprise projects that seek to reach the local private sector by working through financial intermediaries and by keeping overhead costs lower and project sizes larger. However, the existing business model is less suited to supporting newer clients, including the local private sector. This requires more upstream investments to develop the capacity of prospective clients and more project preparation. It would also involve accepting higher risks and costs and longer time periods to gestate bankable projects and being realistic about volume targets that can be achieved when working with new and smaller clients, with a deliberate strategy of building their capacity to help them evolve into repeat clients.

MIGA's business in FCS depends primarily on demand for PRI and non-honoring products, which is driven by the supply of foreign investments. As an insurer, MIGA's business model allows little scope for creating markets or designing and developing projects. Additionally, MIGA's insurance products depend on demand from investors or financiers for risk mitigation, of which insurance is just one option. Moreover, MIGA's Convention restricts it from providing coverage of commercial risks or comprehensive risk,² which investors may require just as much as PRI. MIGA may have less scope to broaden its client base because it can support foreign investments but not the local investments, apart from a few exceptional cases. With regard to its nonhonoring product, which applies to purely public sector undertakings, the IMF–World Bank–Group of Twenty Debt Service Suspension Initiative limits MIGA's ability to market this product to lenders that want to finance public sector projects in FCS.³ This initiative was created to help countries at

high or moderate risk of debt distress, and these are disproportionately FCS, commodity-dependent countries, and small states.⁴ Despite these constraints, collaboration with the World Bank, IFC (including through the IFC-MIGA Business Development Agreement or its successor, the Country Private Sector Diagnostic; country strategy work; and other initiatives), other multilateral development banks, and bilateral insurance agencies can help identify demand for MIGA products. In addition, MIGA could continue to explore the use of brokers, which play an important role in the private PRI industry.

Broadening the client base in FCS is likely to have implications for IFC's and MIGA's risk profiles and financial returns. Some project examples involve IFC and MIGA support to broaden the client base to local clients or proactive project preparation and development work. The experience with these approaches involved some challenges. In Côte d'Ivoire, for example, the Société Ivoirienne de Banques Cargill Risk-Sharing Facility (supporting cocoa farmers and processing) was complex and costly and was not compensated by IFC financial returns. In Mali, IFC supported a shea butter producer through extensive advisory support reaching 100,000 farmers. The approach was costly and led to only a small investment. This indicates some of the challenges and trade-offs involved with downscaling investments.

The average quality of sponsors in IFC-supported investments in FCS is similar to the quality of sponsors in non-FCS countries, based on IFC's proprietary Credit Risk Ratings database (World Bank 2019c). Although the strong quality of sponsors is evidence of prudent risk management, it may constrain IFC's business expansion in FCS to sponsors and sectors where the country and market risks are acceptable. Sponsor quality varies among sectors. Infrastructure and telecommunications attract stronger sponsors, often well-capitalized multinational corporations with significant experience investing abroad. Manufacturing clients have risk profiles closer to the IFC average. By contrast, natural resources and agribusiness investments involve higher sponsor risks

The Cost of Doing Business

IFC's and MIGA's cost of doing business in FCS is significantly higher than in non-FCS countries and may disincentivize building FCS pipelines. A 2016 IFC review of project returns for FY11–15 showed significantly lower risk-adjusted

return on capital for loans in low-income IDA and FCS countries than for IFC overall. Returns to IFC were negative across all industry groups in FCS, most strongly for Manufacturing, Agribusiness, and Services projects (–21.9 percent). The review identified higher operating costs to process and supervise projects in FCS as a major driver of the difference in costs (IFC 2016b). This creates a disincentive for IFC and MIGA as they strive to meet a double “bottom line” of development effectiveness and financial sustainability. Appendix F provides detailed analysis of IFC’s and MIGA’s cost of doing business in FCS.

The higher cost of doing business in FCS manifests itself in multiple ways. These include the higher operating costs for appraisal and supervision in FCS at IFC and MIGA; the additional time and resources needed for upstream advisory services and processing times; the lower average size of IFC and MIGA projects in FCS; the need for increased project preparation and capacity building for clients, staff presence, and the longer time horizons required for project gestation; and the higher financial risks in FCS, which constitute an indirect cost of doing business for IFC in FCS.

Despite the higher costs of doing business in FCS, the cost of risk aversion in FCS outweighs the downside of higher costs. IFC and MIGA have a critical role to play in helping FCS evolve toward more effective market economies. The upstream investments in advisory services involving longer processing times and higher costs have the potential to grow IFC’s business in FCS, as evidenced by the performance of repeat clients, to help FCS graduate out of fragility as countries like Côte d’Ivoire, Liberia, and Sierra Leone have managed to do. Furthermore, the small size of average projects in FCS means that the overall impact of riskier projects on IFC’s balance sheet does not represent a major threat to its bottom line. Additional instruments like CASA and the PSW also help reduce the costs and risks to IFC in FCS.

Risk and Financial Implications of Scaling Up

Investing in high-risk countries and accepting higher risks in FCS involves a trade-off with IFC’s overall risk-reward balance. This suggests a reassessment of the risk appetite in FCS at the corporate level, including of risk parameters set by IFC’s and MIGA’s authorizing environments, to align them better with the objectives of increasing business volumes in FCS. The relatively small size of the

investments in FCS with local investors could reduce the impact of the expected losses but not the higher cost related to project development, appraisal, and supervision relative to the investment size. The portfolio model that some impact investors follow—accepting low(er) returns in FCS markets—may provide lessons for IFC as it is currently implementing its own portfolio approach. The blending of commercial and concessional finance or the use of off-balance-sheet instruments (trust funds, separate organizational entities, or both) can help create conditions for accepting higher risks in FCS markets by providing first loss cover and reducing expected losses. Scaling up in FCS may also entail a broader review of the underlying criteria of credit (or project) risk and attendant risk appetite of IFC and MIGA. Over time, project experience in FCS could allow IFC and MIGA to fine-tune their risk parameters that determine credit risk and pricing.

IEG’s analysis highlights the importance of credit risks in FCS contexts. Such risks entail the loss of principal or loss of an expected financial return because of credit events such as a default or downgrade in credit ratings or any other failure to meet a contractual obligation that results in financial loss. Credit risk ratings are a key input for IFC’s pricing model, especially in FCS markets where market reference points for pricing are harder to find.

Several case studies highlight the challenges related to IFC’s risk management: risk tolerance, pricing, and policies in FCS. Operating in difficult FCS environments is exacerbated by high operational costs and a perceived lack of flexibility in applying requirements, which may influence the number of bankable projects. These challenges have several aspects: IFC’s pricing, lack of flexibility in applying requirements in FCS countries, and perceived risk-aversion (including exposure limits for projects in some countries).

IFC has experienced higher financial risks in FCS. Projects with nonperforming loans and arrears (including principal and interest) accounted for 8 percent of IFC commitments in FCS versus 2 percent of commitments in non-FCS at the end of FY20. These have implications for the reserves on IFC’s balance sheet and constitute an indirect cost of doing business for IFC in FCS.

The quality of available sponsors and clients in FCS is linked to the credit risk. Scaling up would also involve engaging more with less-experienced and smaller clients, which tend to be associated with lower credit quality and attendant lower credit ratings, making investments less commercially viable for IFC.

Impact investors may have more tolerance for lower or negative returns in FCS and offset them with positive returns elsewhere. Impact investors interviewed for this evaluation pointed to the explicit use of a portfolio approach that accepts lower returns in certain priority countries with low access to finance and high social impact of investments, such as in FCS markets, that they offset by positive returns in other developing markets. Impact investors, which have used a portfolio approach for years, often have specific targets, such as accepting –5 percent return on high-impact investments in SMEs in FCS and 0 percent on financial institutions in FCS. Their business models may also involve lower costs and more use of local presence to provide ongoing support to local clients and entrepreneurs. IFC is formalizing its own portfolio approach that aims to balance returns (based on risk-adjusted return on capital estimation) with development impact (based on Anticipated Impact Measurement and Monitoring scores). This should allow IFC to accept in some cases a lower-than-average return for projects that could have a higher development impact.

IFC's financial results and AAA credit rating are important considerations for IFC's sustainability and performance, but they may also hamper expansion of business volumes in IDA low-income and IDA FCS countries. The scenario analysis in box 3.2 shows that increasing IFC's investments in IDA low-income and IDA FCS countries has implications for IFC's financial results. Financial and risk considerations and the need to assess the impact of these investments on IFC's bottom line and its AAA credit rating may constrain IFC's ability to scale up its business in FCS.

Box 3.2. Financial Implications of Scaling Up Business in FCS: A Scenario Analysis

Between fiscal years 2015 and 2020, the International Finance Corporation's (IFC's) annual net income has varied between a loss of \$1.67 billion in 2020 and a high of \$1.4 billion in 2017, averaging about \$250 million a year over the period. These figures reflect a proportion of IFC commitment of about 6 percent (out of IFC's total annual commitments) in International Development Association (IDA) low-income countries and IDA countries affected by fragile and conflict-affected situations (FCS). The proportion has varied between 5 percent and 8 percent annually.

(continued)

Box 3.2 Financial Implications of Scaling Up Business in FCS: A Scenario Analysis (cont.)

If the proportion of annual commitments in IDA low-income and IDA FCS countries had increased to 15 percent or 20 percent of IFC's total annual commitments over these years (scenarios 1 and 2 in table B3.2.1), IFC's cost may rise significantly, and its net income would decrease correspondingly. The cost increase arises from two factors. First, IFC's operating costs would rise because of the higher cost of project preparation and supervision, and second, the provisioning for nonperforming assets would also rise to consider the riskier nature of the investments in IDA low-income and IDA FCS countries. However, as private sector clients in FCS mature and the risk profiles of their projects improve over time and with repeat loans, the higher initial costs may result in lower unit costs over time.

Table B3.2.1. Estimate of Increase in Costs Because of a Higher Proportion of Investment in IDA Low-Income and IDA FCS Countries

	Base	Scenario 1	Scenario 2
Proportion of commitments in IDA low-income and IDA FCS countries (percent)	6	15	20
Annual project preparation cost (US\$, millions)	230	270	290
Increase in project preparation costs (percent)	—	17	26
Annual NPA provisioning (US\$, millions)	240	290	320
Increase in NPA provisioning costs (percent)	—	21	33
Annual total cost of preparation and NPA (US\$, millions)	470	560	610
Increase in annual total costs (percent)	—	19	30

Source: International Finance Corporation and Independent Evaluation Group staff calculations.

Note: Cost projections derive from both estimates of the portfolio's project costs (variable costs from administrative/overhead costs such as travel, project preparation, project management, implementation) and the IFC portfolio's NPL provisioning cost. Portfolio's project cost projections are based on an estimate for "IDA and FCS," "IFC," and "FCS only" project cost as a percentage of the portfolio's long-term finance commitment volume for a given FY or the average in FY15–19 (\$64, \$20, and \$51 per \$1,000 in commitment volume for these three categories, respectively). NPL provisioning cost projects also apply a similar method, provisioning 8 percent (for IDA-LIC and IDA-FCS) or 2 percent (for IFC projects falling outside of these categories) of total long-term finance commitment volume for a given FY or the average in FY15–19. FCS - fragile and conflict-affected situations; FY - fiscal year; IDA - International Development Association; IFC - International Finance Corporation; LIC - low-income country; NPA - nonperforming asset; NPL -nonperforming loan.

(continued)

Box 3.2 Financial Implications of Scaling Up Business in FCS: A Scenario Analysis (cont.)

Since 2015, if IFC had invested 15 percent of its commitments in FCS countries, its net income would decrease by about \$90 million annually, and if it invested 20 percent of its commitments in FCS countries, the corresponding effect on its net income would be a decrease of about \$140 million annually. This represents a decrease of about 35 percent and 55 percent, respectively. This scenario analysis indicates that expanding investments in FCS has implications for IFC's financial results.

Source: International Finance Corporation and Independent Evaluation Group staff calculations.

MIGA needs to balance its mandate to remain financially sustainable and its commitment to scale up support to FCS. MIGA's Convention stipulates that MIGA should fulfill its mandate of promoting the flow of FDIs for development purposes while remaining financially sustainable without recourse to callable capital. To this end, it has put in place various risk management tools and systems centered on an economic capital model. Insuring projects in FCS typically involves a higher charge on MIGA's economic capital, thus contributing to a faster consumption of economic capital compared with projects in less risky country contexts.

Some financial risks for MIGA in FCS have been lower than the ex ante expectation of higher country and project risks. MIGA paid out several claims under its war and civil disturbance coverage in FCS. Claim payments have been relatively small compared with MIGA's portfolio and with losses experienced by other political risk insurers. During FY10–20, five of the seven claims that MIGA paid were in countries classified as FCS, and two of these payments were on behalf of trust funds. MIGA's claims ratio (0.07 percent of outstanding exposure) during FY15–20 is much lower than for Berne Union members overall (0.42 percent of exposure). The effect on MIGA's administrative cost and balance sheet, therefore, appears to have been limited.

Preclaims (investment disputes that may lead to a claim) among MIGA projects are somewhat more frequent in FCS countries than in non-FCS countries, but the underlying reasons are unrelated to fragility or conflict. During

FY10–20, 11.5 percent of FCS projects experienced preclaims compared with 7 percent of non-FCS projects. However, the underlying reasons for preclaims are like those in non-FCS countries and are not driven by fragility or conflict. These related to, for instance, arrears of the government or state-owned off-taker under the relevant project agreements (for example, concession or take-or-pay agreement), indicating that financial risks in FCS for MIGA are no different than non-FCS projects.

Upstream Engagements and Advisory Services

A key constraint to scaling up business in FCS is the small pipeline of bankable projects rather than the availability of finance (World Bank 2021b). To address this constraint, IFC has scaled up its investments in upstream engagements and seeks to expand advisory services, especially to respond to environmental, social, and gender issues. The findings presented here refer to examples of upstream work identified in the evaluation’s case studies; they do not cover the engagements under the systematic upstream work formalized by IFC in FY20.

Upstream engagements by IFC or jointly with the World Bank paved the way for most of the reviewed IFC and MIGA projects in FCS. IFC created a new Global Upstream Unit in FY20 to systematize its approach across different industries. FCS and low-income countries are one focus area of IFC’s upstream work. In 10 of the 12 projects reviewed, IFC advisory services (including CASA and IFC SME Ventures, transaction advisory services, and capacity building) were essential in supporting the development of bankable projects and reducing the associated risks. In one case, IFC followed the client into a new country, and in another instance, IFC’s investment built on earlier IFC investments. In five cases, IFC’s projects leveraged previous Bank Group interventions, including sector work, technical assistance, or a specific investment project. MIGA collaborates closely with IFC and the World Bank to identify bankable opportunities in FCS. All the reviewed MIGA projects (four) were implemented jointly with IFC advisory or investment support.

These upstream investments for project development involve higher upstream costs to promote local economies in FCS. In most cases, a relatively large amount was spent on advisory services to develop a relatively small,

bankable investment. Mali Shi, for instance, has a small IFC investment value of \$2.3 million. Similarly, there are examples in Côte d'Ivoire of spending \$2 million to \$3 million on advisory services, but the investment value was small, at least initially. Cargill had initial support with a small investment in 2015 from IFC (approximately \$4 million to \$5 million) for truck leasing to cocoa farmers. Aside from financial returns, these investments are expected to yield greater economic and social benefits downstream in their impact on local livelihoods, thus having the potential to compensate for their higher upstream costs.

Sponsor commitment and capacity are the main factors influencing the development of bankable projects from the E&S standard requirements. IFC and MIGA assess these factors as part of the due diligence and project appraisal processes. IFC and MIGA apply the same E&S performance standards in FCS as in non-FCS countries. Many projects in FCS require expanded advisory services to address environmental, social, and gender issues and ensure their compliance with the Bank Group's requirements. Examples from the reviewed sample include IFC projects in Côte d'Ivoire, the Democratic Republic of Congo, and Mali.

Some evidence indicates that E&S requirements may have narrowed the list of willing sponsors in FCS. The evaluation did not assess projects deemed ineligible because of E&S issues and risks, but IFC requirements appear to have discouraged some investors. In the Solomon Islands, indications are that E&S challenges may have contributed to the SolTuna project's new owner's prepayment of IFC's loan. An earlier gold mine project also repaid IFC's loan within one year, reportedly because of E&S issues. In Kosovo, interviews suggest that IFC's stringent requirements, including those related to E&S, may have made otherwise attractive projects difficult to finance.

In the absence of international investors, upstream engagement and advisory services can be instrumental in identifying eligible local sponsors and building client capacity and the quality of their E&S systems to prepare bankable projects in FCS. This involves a relatively large up-front cost for developing relatively small investments in many cases. These upstream costs may be more viable if local sponsors have the potential for longer-term and repeat projects, suggesting that replicability and potential for scaling up

would be useful criteria to consider. A second concern is that the E&S issues encountered in FCS and the applicable compliance standards are like those in non-FCS countries. This narrows the list of eligible projects and committed sponsors in FCS, which often require greater support. Although the evaluation found little information on projects rejected because of E&S issues, the stringent requirements may have contributed to a few early repayments. Higher costs and greater needs for client capacity building imply that IFC and MIGA need to rely on special financing instruments to support these upstream services.

Adaptation of Instruments to FCS Contexts

IFC and MIGA have adapted their approaches and financing instruments to enhance their support to FCS (see chapter 2). The instrument mix includes blended finance instruments to lower the financial costs to IFC and MIGA and to sponsors to promote private sector investment in IDA and FCS countries. The set of instruments adapted to FCS includes most prominently IDA's PSW, IFC's CASA initiative, the FCS and low-income country Risk Envelope, and MIGA's CAFEF and SIP. Appendix E provides background on these instruments.

IEG's analysis finds that each of these approaches has helped, but there is insufficient evidence on their overall impact on scaling up bankable projects. Both IFC and MIGA have adapted some of their approaches and instruments to facilitate deal flow in FCS, but these instruments (PSW, other blended finance, CAFEF, and SIP) are mainly intended to address financial risks but not nonfinancial risks and constraints limiting the supply of bankable projects in high-risk markets. IFC and MIGA may need to consider expanding the use of those instruments if they are to have a meaningful impact on scaling up in FCS.

The CASA program has potential to help increase IFC's project pipeline in FCS, but it needs more strategic engagements with clients and stronger integration with IFC operational departments. CASA has been a platform for IFC to expand its footprint and services in FCS, primarily through staffing in the field and a flexible management approach providing proactive support to the investment pipeline. CASA has also supported innovations allowing IFC to enter new areas such as forced displacement, as well as an adapted approach

in several countries (such as through the development of a conflict lens). IEG did not have sufficient evidence to assess CASA's impact on increasing IFC's project pipeline in FCS. IEG concluded that CASA could have engaged more strategically in selecting sectors or areas for engagement. It did play a catalytic role in providing funding to advisory services projects (which often was the basis for attracting other or donor funding). The review also suggested that CASA should engage beyond the subset of African FCS countries that were already attracting investment flows. Finally, CASA lacks "institutionalization" within IFC—and a link to operational and industry departments that could take project proposals forward.

Internal and External Collaboration

The experience of Bank Group-wide collaboration suggests that it can help address the multiple needs of countries emerging from protracted conflicts, reduce high business risk (including weaknesses in the business environment), and facilitate investments. Almost all the reviewed projects in FCS involved some form of Bank Group cross-collaboration to create or strengthen the enabling environment for private investments. Strengthened coordination can generate synergies, especially at the upstream planning phase. Partnerships with DFIs help mobilize cofinancing for FCS projects, although they are less focused on upstream project development and preparation—the main constraint to business development and scaling up in FCS.

Joint implementation plans have facilitated institutional collaboration among Bank Group institutions in several FCS, culminating in bankable projects, but this instrument has been discontinued. In Myanmar, for example, the power sector joint implementation plan facilitated dialogue and decisions that enabled the three Bank Group institutions to cooperate. The World Bank provided technical assistance for policy reform, IFC supported the first competitive IPP in Myanmar, IFC and MIGA cofinanced the private generation project, and the World Bank and IFC supported grid and off-grid electrification. The Bank Group also achieved synergies in the country's financial sector. IFC took the lead in developing the microfinance sector, the World Bank supported regulatory reform and sector liberalization, and IFC provided investment and advisory services to commercial banks. The joint

implementation plans were an effective tool to focus on specific actions for the institutions involved, moving beyond diagnostic and strategy work.

Partnerships with DFIs played an important role in contributing finance and other resources for FCS projects, although they were less focused on upstream project development and preparation. More than half of the sample review projects (7 of 12) have been supported by collaboration between IFC or MIGA and DFIs. In Côte d'Ivoire, for example, IFC mobilized about \$215 million in debt from other DFIs for the Azito III project, including from five European DFIs and a regional development bank. In the Solomon Islands, IFC worked with the Pacific Partnership and coordinated among at least five other donors to cofinance the Tina River Hydropower Development Project and provide expertise and E&S work. In Myanmar, IFC and the World Bank coordinated with several development partners (including the Asian Development Bank, Japan International Cooperation Agency, and UK Department for International Development) to provide planning, regulatory, and financial advice and financing for distribution and generation of rural energy.

DFIs view IFC as a potential leader in FCS, given its large size, substantial expertise, presence in the field, and more developed instruments for FCS engagement (especially blended finance and upstream work). Most DFIs acknowledge that it is extremely difficult to operate in FCS environments because of both their higher risk and each DFI's own stringent and varied requirements that are the same for FCS and non-FCS. They value IFC's leadership and have recently supported the development of the country-level pilots to test approaches to DFI collaboration to address these challenges, although this has not yet met expectations of identifying more investment opportunities in FCS countries. This is partly because of inconsistencies across DFIs in applying requirements (such as E&S).

Despite recent collaboration efforts, DFIs' engagement in FCS remains fragmented and may lead to competition for a few bankable projects. In some countries, competition from other DFIs (including their sometimes more favorable pricing) has restricted IFC's ability to finance projects it helped identify and prepare. DFIs also tend to engage in the larger and more stable FCS countries and stay away from less-developed private sectors with unsophisticated local companies.

Staffing and Institutional Incentives

Weak incentives are a constraint to expanding IFC's footprint and increasing the volume of its investments in FCS countries. As part of its support for the World Bank Group's FY20 FCV strategy, IFC has committed to increase the number of skilled staff working in FCS or working on FCS from nearby hubs, supporting them with specialized training and greater recognition of work in FCS. However, staff remain concerned about weak incentives in FCS. Although staff are recognized and rewarded for doing deals in FCS, it is hard to recruit investment officers in FCS because deals are typically small, uncertain, and more costly and require more time to close compared with deals in non-FCS countries, giving rise to staff concerns about risks to their careers.

IFC staffing in FCS almost doubled from FY06 to FY13 but has stagnated since then and consists largely of locally recruited staff. IFC presence doubled from 64 staff based in FCS in FY06 to 124 by FY13, and the number of country offices in FCS increased from 8 in FY06 to 20 in FY13. The primary driver of IFC staffing in FCS since FY13 has been the changing composition of the countries on the FCS list. Over this period, the aggregate number of IFC staff posted within FCS countries kept declining, reaching a low of 89 in FY19.⁵ IFC country presence in FCS depended heavily on locally recruited staff, who were also less experienced on average than IFC staff posted elsewhere based on their years of service.⁶

IFC has relied on a mix of country presence and a hub-and-spoke model for work in FCS, with considerable support provided by staff in subregional hubs or neighboring countries. IFC tracks data on staff working in FCS, but not support from staff working on FCS from hubs or neighboring countries. The World Bank monitors the "face time" of staff based in different locations, but IFC does not have a human resources management system in place to monitor work on FCS by staff in hubs or neighboring countries. Interviews with IFC staff and managers revealed the importance of mentoring and support provided to staff in FCS from nearby hubs and neighboring countries. In the East Asia and Pacific region, for example, in addition to one IFC staff member in the Solomon Islands, IFC enhanced its capacity to support Pacific island states by posting three investment officers in the Sydney office, which is much closer to those countries. This increased IFC's efficiency compared

with support previously provided from Hong Kong SAR, China, as well as Singapore. Elsewhere, Kenya, Senegal, and South Africa are proving to be useful IFC hubs covering FCS countries in Africa.

Staff based in hubs (or neighboring countries) play a much greater role in leading investment and advisory services projects than staff located in FCS. Staff located in the FCS country at the time of commitment lead only 4 percent of IFC investment projects. The share of advisory services projects managed by task leaders located in FCS is much greater than investment projects. Even so, staff in FCS manage only one in five advisory services projects (22 percent by number and 29 percent by IFC-managed funds). For investment projects, IFC seems to rely almost entirely on the hub-and-spoke model, which allows senior staff to be based near the FCS countries they support while working on a mix of countries from a location that has better living conditions. However, the evaluation indicates the importance of having staff in the field in FCS countries because of their knowledge of the local business environment and ability to enhance IFC's investment pipeline. IFC's investment portfolio correlated strongly with having staff in the field.

IFC's Corporate Award Program creates a positive incentive for staff working in or on FCS by providing greater staff recognition for their contributions to high-impact and multiyear projects in FCS countries. The share of teams receiving team awards for work in FCS increased from 23 percent in FY17 to 47 percent in FY19. In parallel, the share of staff receiving Corporate Top 30 Awards for work in or on FCS was 53 percent in FY18 and FY19. IFC also declared FCS experience to be a core competency tied to career development. However, IFC's main Departmental Performance Awards Program rewards high performance and does not have a specific focus on FCS. In addition, it was not possible to assess how FCS work was affecting staff careers because IFC does not yet track or report on staff career progression.

¹ Country Private Sector Diagnostics have been completed for six of the countries currently classified as fragile and conflict-affected situations (FCS).

² “Comprehensive risk” refers to coverage of both commercial and noncommercial risks.

³ The Debt Service Suspension Initiative (DSSI) was endorsed by the Group of Twenty finance ministers in April 2020 and became effective on May 1, 2020. DSSI borrowers commit to use freed-up resources from suspending debt service payment to increase social, health, or economic spending in response to the coronavirus (COVID-19) and the resulting economic crisis. Countries that sign up to the DSSI commit to disclose all public sector financial commitments (involving debt and debtlike instruments). They also commit to limit their nonconcessional borrowing to levels agreed to under International Monetary Fund programs and the World Bank’s nonconcessional borrowing policies. In return, the World Bank has committed, from April 2020 through June 2021, \$36.3 billion in financing for countries participating in the DSSI, of which \$11.8 billion was in the form of grants. According to a July 2021 update, the World Bank has already disbursed \$20.9 billion—including \$5.6 billion in grants—to more than 40 eligible countries. The total disbursement amount is roughly seven times the \$3 billion in debt-service repayments received from DSSI countries.

⁴ In all, 73 countries are eligible for a temporary suspension of debt-service payments owed to their official bilateral creditors. The Group of Twenty has also called on private creditors to participate in the initiative on comparable terms. The suspension period, originally set to end on December 31, 2020, has been extended through December 2021.

⁵ The total staff in FCS increased by 50 percent to 139 in fiscal year 2020, when Cameroon and Nigeria were added to the FCS list (accounting for 44 staff).

⁶ In some specific programs, such as in the Conflict Affected States in Africa initiative, management is addressing the experience gaps by hiring local recruits who have both sector and education skills required to meet the challenges. However, this program relies on consultants rather than staff for a large share of its hires.

4 | Summary and Recommendations

IFC's and MIGA's Support to FCS and Its Effectiveness

IFC and MIGA have not been able to scale up their business volumes in FCS, despite the introduction of new instruments and modalities for advisory and investment support to FCS countries. The share of IFC's and MIGA's investment volumes in FCS has remained stagnant over the past decade. Over FY10–21, IFC's long-term commitments in FCS have been relatively flat, averaging 5.2 percent of IFC's total commitments and 8.6 percent of projects. MIGA's volume of guarantees has also remained flat, averaging 9 percent of its overall guarantee volume and 17 percent of projects. Although neither institution is yet on a growth trajectory for its business in FCS, their ability to maintain the relative share of business volumes contrasts favorably with the declining flows of FDI into FCS countries over the same period.

A shortage of bankable projects that meet IFC and MIGA standards and criteria, more so than the availability of finance, is the key constraint to scaling up business in FCS. IEG's analysis finds that the supply of bankable projects is limited by financial and nonfinancial risks (World Bank 2021b). Nonfinancial risks include those arising from weak governance, uncertainty, underdeveloped regulatory regimes, poorly functioning institutions, and market characteristics of most FCS countries. They also include risks related to E&S and governance and integrity due diligence issues.

Despite the challenging business environment and constraints in FCS, evaluated IFC projects perform almost as well as those in non-FCS, particularly infrastructure projects and larger investments in larger economies. IFC's development outcome ratings in FCS countries have been somewhat below those in non-FCS countries (46 percent in FCS versus 53 percent in non-FCS). The performance of IFC projects was driven by well-performing infra-

structure projects, large investments in large economies, a high quality of clients, and engagements with repeat clients. Although projects with repeat clients performed well, ensuring additionality in follow-on projects with established sponsors remains a challenge.

MIGA's projects in FCS performed better than those in non-FCS countries (73 percent versus 63 percent). These results are driven by well-performing projects in the agribusiness, manufacturing, and services sectors. High outcome ratings also reflect MIGA's work with strong clients, as foreign investors tend to be better capitalized and have a larger asset base and diversified revenue sources compared with local firms. However, MIGA's FCS projects supported by the SIP—an instrument deemed highly relevant to MIGA's engagement in FCS—are not routinely evaluated by IEG or MIGA.

Factors and Trade-Offs Influencing the Scale-Up of Business in FCS

The evaluation identifies seven discrete factors that have affected IFC's and MIGA's ability to scale up their support to FCS and that may address the limited supply of bankable projects. These are country constraints, availability and quality of clients, upstream and advisory services, cost of doing business, risk and risk management, collaboration within and outside the World Bank Group, and incentives. Although IFC and MIGA have made progress on each of these factors, increasing investment beyond the FCS economies already receiving IFC and MIGA support will involve trade-offs among the various factors, such as accepting higher costs and longer time frames to facilitate the diversification of their client bases. This could affect IFC's and MIGA's bottom lines. The availability of alternative financing instruments to subsidize some of the up-front costs could make this more acceptable to their sponsors and shareholders.

The following links and trade-offs among the different factors emerge from the evaluative evidence and provide insights for IFC's and MIGA's future engagements in FCS countries:

- » **Country characteristics and constraints:** Variability in country characteristics and constraints points to the need for differentiated strategies and

approaches adapted to country conditions, based on diagnostic work on the key constraints and opportunities to diversify and scale up the portfolios—building on existing initiatives such as Country Private Sector Diagnostics, IFC’s country strategies, and Country Partnership Frameworks.

- » **Client quality and availability:** The limited number of clients that are able and willing to meet IFC’s and MIGA’s standards, combined with modest FDI flows to FCS, imply a need for IFC and MIGA to broaden their client bases to reach and build up the capacity of local and regional private investors, as well as to accept higher risks and costs and longer time periods to enable gestation of bankable projects.
- » **Upstream engagements and availability of advisory services:** In the absence of available international investors and project sponsors, upstream engagement and advisory services can be instrumental in identifying eligible local sponsors and building client capacity using blended finance and other instruments to facilitate deal flow in FCS countries.
- » **Cost of doing business:** Expanding business in FCS will require greater resources. IFC’s and MIGA’s cost of doing business is 2.5 times higher in FCS than non-FCS countries, with smaller average investment sizes and longer processing times, which are disincentives for building an FCS pipeline. The resource intensity stems from the need for increased project preparation and capacity building for clients, staff presence, and the longer time horizons required for project gestation.
- » **Implications of financial and nonfinancial risks:** Investing in high-risk countries involves a trade-off with IFC’s overall portfolio risk-reward balance and financial results. Such investments may require reconsidering the risk-bearing capacity in FCS at the corporate level to better align it with the objectives of increasing business volumes in these countries. Beyond the financial implications of credit risk, scaling up in FCS is constrained by nonfinancial risks arising from poor regulatory and policy environments and reputational risks related to E&S and governance and integrity due diligence issues.
- » **Internal and external collaboration:** Bank Group–wide collaboration and collaboration with external partners have helped address the multiple needs of countries emerging from protracted conflicts, reduce high business risk (including weaknesses in the business environment), and facilitate investments.

» **Incentives and staffing:** Weak staff incentives have been a constraint to expanding IFC's footprint and increasing its investments in FCS countries. IFC has sustained its country presence of staff working in FCS with substantial support from staff working from nearby hubs. Although recognition of staff contributions to high-impact projects in FCS has increased, this could be complemented by greater incentives for career growth for staff who have worked in or on FCS countries.

These findings indicate that scaling up in FCS would involve further recalibration of IFC's and MIGA's business models in FCS. Private sector development and supporting private investment in FCS remain challenging and require experimenting, piloting new approaches and instruments, and learning by doing. The evaluation concludes that changes to IFC's and MIGA's business models (including risk tolerance, cost structure, and institutional incentives and culture) may help them overcome the existing shortage of bankable projects in FCS countries. These changes may involve identifying new types of clients; adjusting the instrument mix to downscale and reach local or less-sophisticated clients; working with experienced clients from neighboring countries; accepting longer gestation periods for projects; and moving the engagement model toward more proactive upstream work on project development, project preparation, and sector and policy reform. In addition, new institutional arrangements and modalities such as partnerships with grassroots organizations, blended finance solutions, or trust funds could be deployed to help manage the risks and cost of doing business, address capacity-building needs, and accommodate the longer time periods required for project development and gestation.

Finally, IFC and MIGA could complement the use of corporate volume targets in FCS with targets for the number of projects or other suitable metrics to measure their contribution to inclusive growth of the private sector in FCS. Corporate volume targets, adopted by Bank Group institutions and many development finance institutions, create an incentive to prioritize large-scale projects at the expense of smaller projects in more challenging markets. Some comparator institutions have moved to complement volumetric targets with indicators such as the number of projects or broader private sector development indicators that provide incentives for working in FCS. Such incentives could also be adopted by IFC and MIGA to enhance

their development contribution and project pipeline in underserved FCS, such as small island developing states. Nonetheless, given the smaller size of projects in these states and other disadvantaged FCS, their contribution to the overall volume targets in FCS is likely to remain modest. Adjustments in performance metrics may enable IFC and MIGA to set more realistic targets for their engagements in FCS and incentivize expansion to frontier markets.

Recommendations

Based on these findings and conclusions, the Independent Evaluation Group makes the following recommendations to strengthen the relevance and effectiveness of IFC's and MIGA's support to investments and private sector development in FCS.

Recommendation 1: IFC and MIGA should continue to review their financial risk, make more explicit the implications of IFC's portfolio approach for FCS, and enhance capabilities to address nonfinancial risks to ensure they align with achieving business growth targets and impacts in FCS. Increasing investments and guarantees in FCS countries involves trade-offs between IFC's and MIGA's risk tolerance and financial results as they strive to fulfill their dual mandate of development effectiveness and financial sustainability. IFC and MIGA should continue to periodically assess whether the risk frameworks, models, capital requirements, and financial implications fully support the business growth objectives and targets of the institutions in FCS. Building on experience to date, IFC should also make more explicit the risk-reward trade-offs and implications for investments in FCS in the context of its portfolio approach. The portfolio model followed by some impact investors of accepting low(er) returns in FCS markets may provide helpful lessons for IFC's portfolio approach. Finally, IFC and MIGA should assess and, where needed, strengthen their capacity to address nonfinancial risks, as they are a key constraint to developing bankable projects in FCS.

Recommendation 2: To focus on the development of bankable projects, IFC and MIGA should further recalibrate their business models, client engagements, and instruments to continuously adapt them to the needs and circumstances of FCS and put in place mechanisms to track their effectiveness for real-time learning.

- » To address the shortage of bankable projects, IFC will need to shift its business model more fully toward upstream project development and identify new clients as the norm in FCS. This can build on IFC's existing upstream and advisory work, with close coordination among IFC, MIGA, and the World Bank on country diagnostic work and coordinated action to address constraints and leverage investment opportunities.
- » MIGA should continue to enhance collaboration with the World Bank and IFC on diagnostic and upstream work to fully exploit synergies with IFC's and the World Bank's Creating Markets activities. MIGA can also make the full use of its toolbox (including the SIP), build capacity among less-experienced clients in FCS, and explore the design of future trust funds to expand coverage in areas outside the MIGA Convention, for which there is demand from local investors.
- » To address the resource implications of scaling up in FCS, IFC and MIGA should consider enhanced partnerships with nontraditional investors and social enterprises or possible use of IDA funding to cover the upfront cost of developing the private sector and project preparation in FCS.
- » To ensure effectiveness of existing and nascent instruments and approaches to enhance the pipeline of bankable projects, as a priority, IFC and MIGA should put in place mechanisms to track implementation and effectiveness of these initiatives for real-time learning and course correction.

Recommendation 3: IFC and MIGA should identify and agree on FCS-specific targets in their corporate scorecards to focus their efforts and track progress in implementing the Bank Group FCV strategy for the private sector. The current use of key performance indicators that combine low-income countries with IDA and FCS country groupings may dilute the focus on FCS and FCS-specific topics. Harmonizing World Bank, IFC, and MIGA definitions of FCS and using a single FCS list would be a precondition for setting targets that are clear, transparent, and comparable across the Bank Group.

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APPENDIXES

Independent Evaluation Group

*The International Finance Corporation's
and Multilateral Investment Guarantee
Agency's Support for Private Investment
in Fragile and Conflict-Affected Situations,
Fiscal Years 2010–21*

Appendix A. Methodology

Methodology and Design

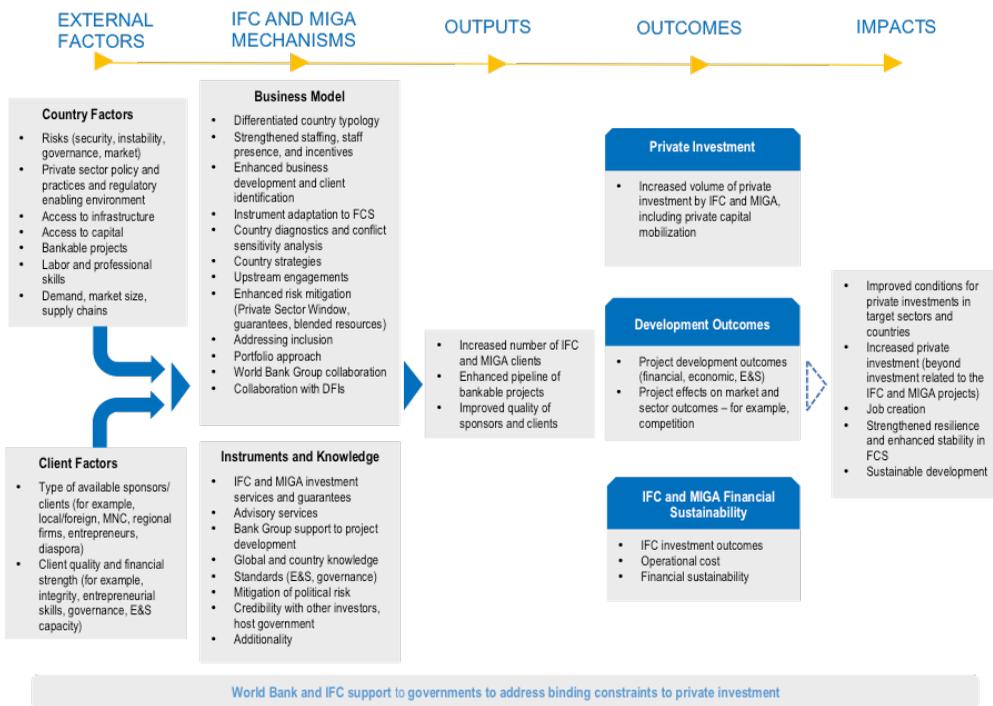
The evaluation's theory of change outlines the links among factors; inputs; and expected outputs, outcomes, and impacts. As outlined in figure A.1, it links the International Finance Corporation's (IFC) and the instruments and knowledge (the inputs) of the Multilateral Investment Guarantee Agency (MIGA) with their expected outputs, outcomes, and impacts as they are shaped and supported by their mechanisms and business models (internal factors), while addressing the risks and constraints associated with fragile and conflict-affected situations (FCS) countries and clients (external factors).

- » IFC and MIGA instruments and knowledge (advisory services, investment services, guarantees, and support to project development) are shaped and supported by these organizations' business models.
- » IFC's and MIGA's business models are adapted to countries affected by fragility, conflict, and violence (for example, through country diagnostics and strategies, strengthened staffing, staff presence and incentives, enhanced business development and client identification, conflict sensitivity analysis, enhanced risk mitigation, and World Bank Group cooperation) to assess and mitigate the heightened risks associated with external factors.
- » External factors are those related to countries and clients that affect the ability to deliver the expected outputs, outcomes, and impacts. Country factors include risks, regulatory environment, access to infrastructure, access to capital, and bankable projects, whereas client factors refer to the type of available clients, client quality, and their financial strength, given IFC's and MIGA's suites of instruments.

Outputs include, for example, an increased number of clients and an enhanced pipeline of bankable projects. Outcomes at different levels include an increased volume of private investment supported by IFC and MIGA, project development outcomes and effects on markets and sectors, and effects on MIGA's and IFC's financial sustainability.

Impacts include, for example, improved conditions for private investments, increased private investment beyond what IFC and MIGA facilitated, job creation, and strengthened resilience and enhanced stability in FCS. Some impacts are not attributable to IFC or MIGA projects because there is a dearth of rigorous impact evaluations and rapid impact evaluations conducted on the projects, limiting the depth and coverage of meaningful conclusions on impacts.

Figure A.1. Theory of Change



Source: Independent Evaluation Group.

Note: DFI = development finance institution; E&S = environmental and social; FCS = fragile and conflict-affected situations; FCV = fragility, conflict, and violence; IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency; MNC = multinational corporation.

The evaluation addresses the following main evaluation question and subquestions (and table A.1 describes the multilevel evaluation design matrix used for answering them): *To what extent have IFC and MIGA contributed to development progress by supporting private investment in FCS?*

- » To what extent have IFC and MIGA instruments been effective in scaling up private investment in FCS?

- » How effectively have investments supported by IFC and MIGA delivered development impact in FCS countries and contributed to the financial objectives of the two institutions?
- » Which factors have enabled or constrained IFC's and MIGA's effectiveness in supporting private investment and development impact in FCS?
 - » Factors related to IFC's and MIGA's institutional performance, such as business models, policies, adaptation and selection of instruments, risk tolerance, risk mitigation tools, availability of analytical and diagnostic work, staffing and internal incentives, operational costs, and adequacy and effectiveness of partnerships with other actors and collaboration within the Bank Group
 - » External factors related to specific country conditions (typologies), country and market risks, and general policy and enabling environment
 - » Factors related to the availability, type, and quality of private clients (for example, foreign, local, or regional firms; state-owned enterprises)
- » What are the lessons and implications for scaling up sustainable investment in FCS?

Table A.1. Evaluation Design Matrix

Question	Total Portfolio Level	Country Level ^a	Intervention Level ^b
To what extent have IFC and MIGA contributed to development progress by catalyzing and supporting private investment in FCS?			
Subquestion 1: To what extent have IFC and MIGA modalities and instruments been effective in scaling up private investment in FCS?	<p>Portfolio review of IFC and MIGA databases;</p> <p>Review of WDI and other macroeconomic indicator and fragility databases;</p> <p>Analysis of IEG evaluation databases;</p> <p>Review of corporate strategies, assessments, academic literature;</p> <p>Interviews with key stakeholders, including IFC and MIGA staff, staff from DFIs and comparator institutions;</p> <p>PSW assessment;</p> <p>Comparator benchmarking</p>	<p>Review of IEG evaluation databases;</p> <p>Document review of Bank Group country diagnostic and strategy documents;</p> <p>Document review of project files and evaluation documents;</p> <p>Interviews with key stakeholders, including Bank Group country teams, and IFC and MIGA clients and comparators</p>	<p>Review of IEG evaluation databases;</p> <p>Document review of Bank Group project files and evaluation documents for selected interventions;</p> <p>Alignment with planned PPARs;</p> <p>Interviews with key stakeholders, including IFC and MIGA staff, clients, and peers</p>
Subquestion 2: How effectively have investments supported by IFC and MIGA delivered development impact in FCS countries and contributed to the financial objectives of the two institutions?	<p>Portfolio review of IFC and MIGA databases;</p> <p>Review of WDI and other macroeconomic indicator and fragility databases;</p> <p>Review of institutional databases related to risk, and human resources;</p> <p>Interviews with key stakeholders, including IFC and MIGA staff, staff from DFIs and comparator institutions;</p> <p>Review of corporate strategies;</p> <p>PSW assessment;</p> <p>Comparator benchmarking</p>	<p>Review of IEG evaluation databases;</p> <p>Document review of Bank Group country diagnostic and strategy documents and project files and evaluation documents;</p> <p>Interviews with key stakeholders, including Bank Group country teams, IFC and MIGA client and comparator teams, and IFC and MIGA clients</p>	<p>Document review of Bank Group project files and evaluation documents;</p> <p>Alignment with planned PPARs;</p> <p>Interviews with key stakeholders, including IFC and MIGA staff and clients</p>

(continued)

Question	Total Portfolio Level	Country Level ^a	Intervention Level ^b
To what extent have IFC and MIGA contributed to development progress by catalyzing and supporting private investment in FCS?			
Subquestion 3: Which factors have enabled or constrained IFC's and MIGA's effectiveness in supporting private investment and development impact in FCS?	Portfolio review of IFC and MIGA databases; Review of WDI and other macroeconomic indicator databases; Review of academic literature; Interviews with key stakeholders, including IFC and MIGA staff and staff from DFIs and comparator institutions; Comparator benchmarking	Country classifications; Review of external databases; Interviews with key stakeholders, including Bank Group country teams, and IFC and MIGA clients	Document review of Bank Group project files and evaluation documents; PPAR program; Interviews with key stakeholders, including IFC and MIGA staff and clients
Subquestion 4: Which lessons and implications can be drawn for scaling up sustainable investment and for enhancing the universe of bankable projects in FCS?	Summative assessment from evaluative subquestions 1–3	Summative assessment from evaluative subquestions 1–3	Summative assessment from evaluative subquestions 1–3
Sampling and selection considerations	Universe of the approved and committed IFC and MIGA portfolio (according to evaluation delimitation criteria) and of evaluated IFC and MIGA interventions	Selection of approximately six countries considering (i) diversity of IFC and MIGA engagement and (ii) diversity in country characteristics	Two interventions per selected country based on (i) projects in selected countries; (ii) projects in three main strategic sectors identified by IFC and MIGA (infrastructure-power, agribusiness, financial inclusion); and (iii) where feasible, projects for which PPARs are being conducted

Source: Independent Evaluation Group.

Note: DFI = development finance institution; FCS = fragile and conflict-affected situations; IEG = Independent Evaluation Group; IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency; PPAR = Project Performance Assessment Report; PSW = Private Sector Window; WDI = World Development Indicators.

^a. For selected countries.

^b. Selected interventions nested in country level.

Scope

The evaluation covers all FCS-relevant activities included in IFC's and MIGA's corporate strategies, complementary Bank Group interventions as part of the analysis of Bank Group collaboration in FCS, and a qualitative analysis of comparator institutions:

- » The evaluation covers all IFC and MIGA instruments that directly support private investment in FCS. These instruments are (i) IFC investment services, (ii) IFC advisory services to private firms in FCS, and (iii) MIGA guarantees. The evaluation primarily covers IFC's and MIGA's portfolios that were approved or evaluated during fiscal years 2010–21.
- » An early-stage assessment of IFC's and MIGA's experiences with the International Development Association Private Sector Window (PSW) was prepared concurrently, but separately. This early-stage assessment provides material for this evaluation. The assessment focused on implementation aspects of the PSW instrument (usage, additionality, concessionality, and governance) rather than on outcomes of PSW-supported projects that are not yet operationally mature.
- » The evaluation covers World Bank interventions and IFC advisory services to governments that are directly relevant to generating private investment in country case studies. The evaluation assesses the relevance and coherence of the World Bank and IFC advisory services to government portfolios as part of the country-level analysis to examine to what extent these services have enabled IFC and MIGA to catalyze private investment and contribute to the outcomes of these investments.
- » The evaluation also includes a qualitative analysis of comparators supporting private investment in FCS markets across several engagement and performance dimensions to place the contributions of IFC and MIGA in the context of other development finance agencies and contributors. The evaluation seeks to benchmark IFC's and MIGA's engagements with those of the institutions.

Limitations of the Evaluation

Several factors constrain the evaluation.

First, the evaluation focuses on IFC and MIGA instruments that directly support private investment. Promoting private investment, however, depends on an environment conducive to private enterprise, requiring assistance from both the public and the private sector. This evaluation does not provide a systematic assessment of drivers of private investment and private sector-led growth.

Second, IFC's and MIGA's strategic context, approaches, and instruments for FCS continue to evolve. Although the Independent Evaluation Group (IEG) strived to generate new evaluative evidence using the outlined methods, the newer instruments' limited track record constrained the evaluation's scope.

Third, the heterogeneity of FCS countries implies limited ability to generalize findings across countries. The evaluation focuses on carefully drawing out nuances in findings and implications derived from specific country typologies based on engagement patterns and the significance of IFC's and MIGA's portfolios rather than aiming for comprehensive coverage of different country types. A similar limitation applies to project-level deep dives. However, careful selection of countries and projects within countries captured meaningful variation that mitigates these limitations. Consequently, strong patterns across cases (countries or projects) can be generalized (to a large extent, in some cases) beyond the sample itself and are of broader relevance.

Finally, IEG conducted the evaluation based on desk reviews and virtual interviews without any fieldwork because of the restrictions imposed by the coronavirus (COVID-19) pandemic. IEG necessarily relied on IFC and MIGA project documentation and monitoring and evaluation reports, without any access to project sites. It triangulated findings by reaching clients and stakeholders through virtual interviews and by exploring external data sources.

Evaluation Components

IEG developed its evaluation findings from three different levels of analysis: total portfolio, intervention, and country. Most of the components straddle several if not all of these levels. For example, portfolio reviews were undertaken for both the total portfolio and country-level analyses.

Portfolio review and desk research. Based on IFC's and MIGA's corporate databases and IEG's evaluation database, IEG conducted a comprehensive review covering the entire portfolio of IFC investments, IFC advisory services, and MIGA guarantees and their related evaluative databases to identify design features, development outcomes, institutional performance, and drivers of success and failure. Building on work done for the IEG synthesis report (World Bank 2019), for evaluated projects, this included a desk review of project documents to distill drivers of performance and lessons.

Database analysis. IEG analyzed databases pertaining to country and project risk ratings, staffing and human resources, project costs, and project preparation and processing times.

IFC Project Performance Assessment Reports. In fiscal year 2020, IEG conducted a programmatic Project Performance Assessment Report series focused on IFC modalities of engagement in FCS to enhance the evaluative database on FCS projects. It assessed five IFC operations covering different types of engagements and instruments. The Project Performance Assessment Reports include an assessment of project performance using IEG's standard project evaluation methodology. They gather evidence on the relevant evaluation questions to derive findings and lessons that are reflected in the evaluation report.

Document review. The evaluation also includes a structured review of IFC, MIGA, and World Bank strategy and policy documents, as well as academic and other development partner literature on private investment in FCS contexts.

Interviews with key stakeholders. IEG conducted interviews with (i) a sample of private sector clients of Bank Group-supported projects; (ii) IFC, MIGA, and World Bank staff and management engaged in FCS private sector work; (iii) government representatives; and (iv) external stakeholders,

including private sector entities and other development finance institutions supporting private investment in FCS.

Country-level analysis. IEG conducted seven country case studies to deepen the understanding of IFC and MIGA FCS interventions, illustrate development outcomes, assess additionality, and develop further lessons of experience. The case studies followed a common outline and template to ensure uniform evidence collection. The case studies allowed IFC's and MIGA's support to be contextualized, given country-specific constraints and opportunities for private investment and private sector characteristics. They were also a tool for deriving insights and lessons from approaches and engagement models of comparator institutions supporting private investment. The case studies allowed for an assessment of project investment and development outcomes over a longer period than the standard five years for IFC investment projects and three years for MIGA guarantees. The country case studies included interviews with private sector entities, Bank Group staff, and development finance and other comparator institutions (appendix B).

The case studies also generated evidence on the adequacy of collaboration and coordination among Bank Group entities and with other actors. The country lens allowed an opportunity to assess the evidence regarding any tension between internal financial return objectives and development outcomes by assessing the extent to which IFC and MIGA support promoted competition and market creation. For the case studies, IEG selected countries to cover a wide range of FCS country typologies (table B.1).

Comparator benchmarking. IEG undertook a qualitative analysis of institutions supporting private investment in FCS markets across several engagement and performance dimensions to place IFC's and MIGA's contributions in the context of other development finance agencies and contributors. Nearly 40 staff from 12 institutions were interviewed (31 staff in 9 institutions for IFC comparator analysis). In addition, staff from three political risk insurers were interviewed about their experience in FCS. This analysis was based on interviews, a document review, and a portfolio review (where provided by comparator institutions). IEG sought lessons from approaches, business models, and instruments supporting the private sector that have

been implemented among other development finance institutions and public and private comparator organizations.

Early-stage assessment of IFC and MIGA PSW. Concurrently with the evaluation, IEG assessed IFC's and MIGA's early experiences with the International Development Association PSW. The findings of this evaluation are reflected in this evaluation. The PSW assessment derives early lessons for the relevance, utility, and additionality of the PSW facilities to scale up business in high-risk and FCS markets. It also reflects on aspects of institutional performance to date, such as the PSW governance and associated processes.

Reference

World Bank. 2019. *The International Finance Corporation's Engagement in Fragile and Conflict-Affected Situations: Results and Lessons*. Synthesis Report. Independent Evaluation Group. Washington, DC: World Bank. https://ieg.worldbankgroup.org/sites/default/files/Data/Evaluation/files/IFC_in_FCV.pdf.

Appendix B. Country Case Studies

The evaluation selected seven countries for case studies to represent different fragile and conflict-affected situations (FCS) typologies and encompass a range of country contexts. Table B.1 and box B.1 show the characteristics of the seven case study countries. The sample includes countries that the World Bank Group currently classifies as FCS and one that graduated from the FCS list (Côte d'Ivoire); as conflict-affected (the level of conflict intensity affects security and political risks) or fragile; as resource-rich, landlocked, or small island economies; and as low-income or middle-income countries. These countries vary greatly in size, the strength of their institutions, their business environments, their rate of economic growth, and the size of foreign direct investment inflows they attract (larger economies tend to attract greater foreign investment flows and support larger International Finance Corporation and Multilateral Investment Guarantee Agency investments, whereas smaller ones tend to imply a need to work with smaller, less-sophisticated local companies). In small island states, the size and relative isolation create a different type of fragility. The seven countries selected for case studies reflect these different FCS typologies and encompass a range of country contexts. These diverse dimensions of fragility have different implications for private sector development in each country (table B.1). Table B.2. refers to projects that were reviewed in depth as part of country case studies.

Table B.1. Characteristics of the Country Case Studies

Case Study Country	Region	Conflict/Fragility	Typology	Pop. (millions)	Avg. CPIA Pub. Sect.	Avg. CPIA Fin. Sect.	DB Ranking	10-year GDP Growth (%)	5-Year FDI (% GDP)
Congo, Dem. Rep.	AFR	Conflict	Resource-rich	81.3	2.0	2.2	182	6.11	3.54
Myanmar	EAP	Fragility		53.4	2.8	2.5	172	7.94	5.21
Kosovo	ECA	Fragility	Landlocked	1.8	3.0	3.5	80	3.40	4.28
Solomon Islands	EAP	Fragility	Resource-rich, small island	0.6	3.0	3.0	103	4.14	3.03
Côte d'Ivoire	AFR	Fragility		24.3	2.5	3.0	150	5.63	1.45
Iraq	MENA	Conflict	Resource-rich	38.3			163	6.12	0.71
Mali	AFR	Conflict	Resource-rich, landlocked	18.5	3.3	3.0	148	4.38	1.94

Source: *World Development Indicators* and Independent Evaluation Group staff calculations.

Note: Avg. CPIA pub. sect. is the average Country Policy and Institutional Assessment for transparency, accountability, and corruption in the public sector rating (2003–17), avg. CPIA fin. sect. is the average CPIA financial sector rating (2003–17), and DB ranking is the *Doing Business* ranking (average 2010–20). AFR = Africa; DB = *Doing Business*; CPIA = Country Policy and Institutional Assessment; EAP = East Asia and Pacific; ECA = Europe and Central Asia; FDI = foreign direct investment; GDP = gross domestic product; MENA = Middle East and North Africa.

Box B.1. Case Study Countries

The case study countries vary in their underlying causes of fragility and conflict and the constraints and opportunities faced by private investors.

Mali is a large, landlocked state with an economy primarily dependent on agricultural commodities. The agricultural sector has low commercial production capacity, and a corrupt bureaucracy provides little in the way of quality public goods and services, resulting in low development of human capital.

The Solomon Islands is a small, remote archipelago state in the South Pacific that is constrained by its physical geography. Its economy relies heavily on the logging industry, which is exploiting the forests at an unsustainable rate. The country is thus seeking to transition to developing its mining industry, commercial fishing, and tourism.

Côte d'Ivoire's economy depends heavily on a few commodities. Cocoa is its main export. Broad swaths of the population participate in cocoa production because it has low barriers to entry. However, competition for access to land among cocoa farmers and pastoralists has led to tensions and conflict in the past, which have contributed to the recent elections' creating a situation of deepening insecurity.

Iraq is dependent on a single commodity—crude oil—for economic growth, but it has a well-developed capital base and physical infrastructure. Crude oil price volatility is a significant driver of risk. The country is also highly vulnerable to external threats such as the Islamic State of Iraq and Syrian Arab Republic, internal political and sectarian rivalries, and low public trust in its institutions, although it has benefited from a strong international security presence.

Myanmar is a resource-rich country that has recently opened its economy to the international system and has a vibrant media and civil society. However, decades of economic and political isolation have led to weak and underdeveloped capacity in both the public and private sectors. The ongoing peace process with armed ethnic groups in the hinterlands and its hybrid form of military-civilian rule with limited political participation of its people has continued to inflame political tensions.

The Democratic Republic of Congo has great resource potential, but factors such as poor governance, a corrupt political system built on patronage, and persistent violent conflict along ethnic lines, particularly in the east, prevent the country from reaching

Box B.1. Case Study Countries (cont.)

its full potential. The international community has unusually limited leverage in persuading the government to shift toward a more transparent and equitable economic growth strategy.

Kosovo benefits from an active international community presence in the country. Its diaspora also provides significant foreign direct investment inflows in the form of remittances, which act as a social safety net. However, Kosovo suffers from an inefficient and opaque bureaucracy, a growing youth demographic that increases pressure on the labor market, and an underdeveloped private sector. Fragility risks pertaining to its political status as an independent state are unique to Kosovo.

Source: Independent Evaluation Group staff reviews.

Table B.2. Interventions Selected in Country Cases

Project Name	Project Number	Institution	Country	Approval FY	Sector
Central Africa SME Fund (CASF)	28784	IFC	Congo, Dem. Rep.	2010	Collective investment vehicles
TEB Sh.A	29938 33510 41672	IFC	Kosovo	2011	Financial markets
AUB Iraq	30617	IFC	Iraq	2011	Financial markets
Rawbank	33740	IFC	Congo, Dem. Rep.	2014	Financial markets
ACL Myanmar Loan I	35818	IFC	Myanmar	2015	Financial markets
Nafith (IFC, MIGA)	32425 (IFC) 9170 (MIGA)	IFC; MIGA	Iraq	2011	Infrastructure

(continued)

Project Name	Project			Approval	
	Number	Institution	Country	FY	Sector
Azito Energie S. A. Phase III	Azito Phase 3 (IFC 26619) Azito Phase 4 (IFC 39270) Azito Advisory (IFC AS 604859) Globeleq (MIGA 8296) Globeleq (MIGA 14340)	IFC; MIGA	Côte d'Ivoire	2012	Infrastructure
Myingyan IPP	38930 (IFC IS) 600181 (IFC AS)	IFC; MIGA	Myanmar	2016	Infrastructure
Tina River Hydropower Development Project	Tina River Hydropower IPP (IFC AS 28681) Tina River Ltd. (MIGA 12943)	IFC; MIGA	Solomon Islands	2017	Infrastructure
SoITuna	SoITuna Capex (IFC 32053) NFD Loan 2 (IFC 41221)	IFC	Solomon Islands	2013	Agribusiness and forestry
Cargill (IFC) and Olam Cocoa (CASA IS)	SIB Cargill RSF (IFC 36149) Cargill Advisory (IFC AS 600283) Olam CI (IFC AS 601116)	IFC	Côte d'Ivoire	2015	Manufacturing
Mali Shi	41588	IFC	Mali	2019	Agribusiness and forestry

Source: Independent Evaluation Group, International Finance Corporation, and Multilateral Investment Guarantee Agency.

Note: AS = advisory services; CASA = Conflict Affected States in Africa; FY = fiscal year; IFC = International Finance Corporation; IPP = independent power producer; IS = investment services; MIGA = Multilateral Investment Guarantee Agency; SIB = Société Ivoirienne de Banques; SME = small and medium enterprise.

Appendix C. Performance Ratings of IFC and MIGA Projects

Table C.1. Outcome Ratings of IFC Investments in Fragile and Conflict-Affected Situations, 2010-2020

	Number (n)	Development Outcome (%)	Project Business Success (%)	Investment Outcome (%)
All FCS	59	46	44	64
IDA FCS	49	43	41	61
IDA non-FCS	248	49	45	61
Resource-rich FCS	32	44	44	56
Landlocked FCS	13	46	46	69
Small islands FCS	6	50	50	67
Core FCS	27	41	37	56
Transitional FCS	32	50	50	72
Conflict FCS	23	57	52	74
Fragility FCS	21	38	38	57
Repeat FCS	19	84	68	89
Size (FCS only)				
Small country (population: less than 5 million)	17	35	35	59
Medium country (population: 5–20 million)	17	35	35	65
Large country (population: more than 20 million)	25	60	56	68
Small investment (less than \$4.3 million)	22	36	36	55
Medium investment (\$4.3–35.7 million)	28	46	43	64
Large investment (more than \$35.7 million)	9	67	67	89

Source: Independent Evaluation Group staff calculations.

Note: FCS = fragile and conflict-affected situations; IDA = International Development Association; IFC = International Finance Corporation.

Table C.2. Outcome Ratings of MIGA Guarantees in Fragile and Conflict-Affected Situations, FY2010-2020

	Number (<i>n</i>)	Development Outcome (%)	Project Business Success (%)
All FCS	22	73	68
IDA FCS	20	75	70
IDA non-FCS	38	61	53
Resource-rich FCS	14	71	64
Landlocked FCS	3	100	67
Small islands FCS	1	0	0
Core FCS	12	75	67
Transitional FCS	10	70	70
Conflict FCS	12	83	75
Fragility FCS	3	33	33
Repeat FCS	10	70	70
South-South FCS	5	80	80

Source: Independent Evaluation Group staff calculations.

Note: FCS = fragile and conflict-affected situations; FY = fiscal year; IDA = International Development Association; MIGA = Multilateral Investment Guarantee Agency.

Appendix D. Harmonized List of Fragile Situations, 2010–21

Table D.1. Harmonized List of Fragile Situations, 2010–21

Country or Economy	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Afghanistan	FCS											
Angola	FCS	FCS	FCS	FCS	NFCS							
Bosnia and Herzegovina	FCS	NFCS	NFCS	NFCS	NFCS	NFCS						
Burkina Faso	NFCS	FCS	FCS									
Burundi	FCS											
Cambodia	NFCS											
Cameroon	FCS	NFCS	FCS	FCS								
Central African Republic	FCS											
Chad	FCS											
Comoros	FCS											
Congo, Dem. Rep.	FCS											
Congo, Rep.	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS
Côte d'Ivoire	FCS	NFCS	NFCS									
Djibouti	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	NFCS	NFCS
Equatorial Guinea	NFCS											
Eritrea	FCS											
Gambia, The	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	FCS
Georgia	FCS	FCS	FCS	NFCS								
Guinea	FCS	FCS	FCS	FCS	NFCS							

(continued)

Country or Economy	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Guinea-Bissau	FCS											
Haiti	FCS											
Iraq	NFCS	FCS										
Kiribati	FCS											
Kosovo	FCS											
Kyrgyz Republic	NFCS											
Lao PDR	NFCS	FCS										
Lebanon	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	FCS
Liberia	FCS											
Libya	NFCS	NFCS	NFCS	FCS								
Madagascar	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS
Malawi	NFCS	NFCS	NFCS	NFCS	FCS	NFCS						
Mali	NFCS	NFCS	NFCS	NFCS	FCS							
Marshall Islands	NFCS	NFCS	FCS									
Mauritania	NFCS											
Micronesia, Fed. Sts.	NFCS	NFCS	FCS									
Mozambique	NFCS	FCS	FCS	NFCS	FCS							
Myanmar	FCS											
Nepal	FCS	FCS	FCS	FCS	FCS	NFCS						
Niger	NFCS	FCS	FCS									
Nigeria	NFCS	FCS	FCS									
Papua New Guinea	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS

Country or Economy	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
São Tomé and Príncipe	FCS	FCS	NFCS									
Sierra Leone	FCS	NFCS	NFCS	NFCS								
Solomon Islands	FCS											
Somalia	FCS											
South Sudan	NFCS	NFCS	NFCS	FCS								
Sudan	FCS											
Syrian Arab Republic	NFCS	NFCS	NFCS	FCS								
Tajikistan	FCS	FCS	NFCS									
Timor-Leste	FCS	NFCS	NFCS	FCS	FCS	FCS						
Togo	FCS	NFCS	NFCS									
Tonga	FCS	NFCS										
Tuvalu	NFCS	NFCS	NFCS	FCS								
Uzbekistan	NFCS											
Vanuatu	NFCS											
Venezuela, RB	NFCS	FCS	FCS									
West Bank and Gaza	FCS											
Yemen, Rep.	FCS											
Zimbabwe	FCS											

Source: World Bank.

Note: FCS = fragile and conflict-affected situations; NFCS = non-FCS.

Appendix E. Adaptation of Instruments to FCS Contexts

Both the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) have adapted their approaches and financing instruments to enhance their support to fragile and conflict-affected situations (FCS; chapters 2 and 3). The instrument mix includes blended finance instruments—most prominently the International Development Association (IDA) Private Sector Window (PSW), IFC’s Conflict Affected States in Africa (CASA) initiative, and MIGA’s Conflict-Affected and Fragile Economies Facility (CAFEF) and Small Investment Program (SIP)—to lower the financial costs to IFC, MIGA, and sponsors and to promote private sector investment in IDA and FCS countries.

Blended Finance

Blended finance can help get projects off the ground by mitigating financial risks and improving the risk-reward profile of investments that have potentially high development benefits. Thus, for IFC’s Cargill Risk-Sharing Facility in Côte d’Ivoire, a first loss guarantee of up to 25 percent from the Global Agriculture and Food Security Program and up to 15 percent from the Global SME Finance Facility enabled IFC to structure the deal to make the final truck lease price affordable to the cocoa farmers’ cooperatives. In the Solomon Islands, grant funding from the Global Agriculture and Food Security Program also de-risked IFC’s tuna and fisheries projects.

The PSW is the World Bank Group’s most recent blended finance instrument to support private investments in IDA countries and countries affected by fragility, conflict, and violence. Its objective is to mobilize private sector investments in underserved sectors and markets in the poorest and most fragile IDA countries. The PSW mainly addresses the financial risks constraining investment in FCS, but it does not address nonfinancial risks and other constraints. Among the case studies, the PSW’s Small Loan Guarantee Program was used for a repeat IFC project in Kosovo to support small and

medium enterprises. In the Solomon Islands, the PSW's MIGA Guarantee Facility was used to mitigate risk and reduce MIGA's pricing for the Tina River Hydropower Development Project, which benefited the country by lowering the required power tariff.

The Conflict Affected States in Africa Initiative

The CASA initiative has the potential to help increase IFC's project pipeline in FCS, but it needs more strategic engagements with clients and stronger integration with IFC operational departments. The CASA initiative is a multidonor trust fund dedicated to scaling up IFC's work in FCS. It provides a platform for IFC to expand its footprint and services in FCS, primarily through staffing in the field and a flexible management approach, which allows for proactive support to the investment pipeline. The availability of dedicated, flexible funding and staff in the field has helped catalyze IFC support to FCS by strengthening country coverage and expertise, proactively supporting the IFC project pipeline, scaling up advisory services offerings, and fostering innovation and adaptation (such as assisting refugees and host communities). CASA also supported innovations that have allowed IFC to enter new areas such as forced displacement, as well as an adapted approach in several countries (such as through the development of a conflict lens). A key CASA innovation has been its work with the Kakuma Refugee Camp in Kenya. CASA enabled IFC to undertake a consumer and market study inside and outside the camp, defining specific sectors and activities for business development to develop Kakuma further as a market for local and external investors that can provide productive employment and livelihoods to refugees and neighboring communities. Building on this engagement, IFC launched the Kakuma Kalobeyei Challenge Fund in November 2019.

The Independent Evaluation Group did not have sufficient evidence to assess CASA's impact on increasing IFC's project pipeline in FCS. CASA-eligible countries received 75 percent of all IFC FCS Africa investments in fiscal years (FY)10–20. However, because several CASA countries were already attracting sizable foreign direct investment flows, it is not easy to isolate the increase in IFC's pipeline that can be attributed to CASA alone. CASA could have engaged more strategically in selecting sectors or areas for engage-

ment. It did play a catalytic role in providing funding to advisory services projects (which often was the basis for attracting other or donor funding). The review also suggested that CASA should engage beyond the subset of African FCS countries that were already attracting investment flows. Finally, CASA lacks “institutionalization” within IFC—and a link to operational and industry departments that could take project proposals forward.

The MIGA Conflict-Affected and Fragile Economies Facility

Building on experience gained with single-country trust funds,¹ MIGA created the multicountry CAFEF in 2013 targeting \$500 million in initial capacity, with a first loss layer of \$100 million. CAFEF, like the PSW, can help mitigate risk, reduce the pricing of guarantees, and expand coverage in high-risk markets. A midterm review finds that the relevance and effectiveness of CAFEF as a first loss facility in the context of MIGA is not yet fully established, partly because the way the facility has been used so far is not consistent with the concept of first loss mitigation. At the time of the review in 2018, CAFEF was mainly substituting for MIGA capital, and sufficient effort at systematic business development—the objective of scaling up operations in FCS countries—did not materialize. MIGA is also constrained by not being able to use CAFEF to expand into countries where MIGA cannot offer coverage or offer coverage outside of its Convention, such as to local investors (as MIGA was able to do in the West Bank and Gaza facility).

The MIGA Small Investment Program

The SIP is meant to support smaller investments in FCS markets in a streamlined manner. MIGA introduced the SIP in FY06 to target small and medium investors and enterprises with guarantees not exceeding \$10 million. During FY06–12, SIP accounted for 26 percent of MIGA projects and 1.6 percent of its total gross exposure. However, it has not been used since FY17. The Independent Evaluation Group assessment of the SIP pointed to challenges in financial viability and economic sustainability and to the lack of systematic tracking of project performance, which obscures development results.

Although the original intent was for the SIP to rely on a streamlined process for noncomplex projects, in practice, more extensive and time-consuming analysis was often undertaken because of the high-risk nature of SIP projects and limited client capacity.

The Independent Evaluation Group’s analysis finds that although each of these approaches has helped, there is insufficient evidence on overall impact on scaling up bankable projects. Both IFC and MIGA have adapted some of their approaches and instruments to facilitate deal flow in FCS, but these instruments—PSW, other blended finance, CAFEF, and SIP—are mainly intended to address financial risks but not nonfinancial risks and constraints limiting the supply of bankable projects in high-risk markets. Expanded use of those instruments may need to be considered if they are to have a meaningful impact on scaling up in FCS. It is too soon to assess CASA’s outcomes on deal flow to bankable projects. CASA has a broader remit to support the IFC project pipeline by scaling up advisory services and fostering innovation and adaptation.

¹ For Afghanistan, Bosnia and Herzegovina, and West Bank and Gaza.

Appendix F. Cost of Doing Business in Fragile and Conflict-Affected Situations

The cost of doing business in fragile and conflict-affected situations (FCS) is significantly higher than in non-FCS countries for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). A previous review by IFC (2016) of project returns for fiscal years (FY)11–15 showed significantly lower risk-adjusted return on capital for loans in low-income International Development Association (IDA) and FCS countries than for IFC overall. Returns to IFC were negative across all industry groups in FCS, most strongly for Manufacturing, Agribusiness, and Services projects (–21.9 percent). The review identified higher operating costs to process and supervise projects in FCS as a major driver of the difference in costs (IFC 2016). This creates a disincentive for IFC and MIGA as they strive to meet a double “bottom line” of development effectiveness and financial sustainability.

The higher cost of doing business in FCS manifests itself in multiple ways. These include the operating costs for appraisal and supervision at IFC and MIGA, the additional time and resources needed for upstream advisory services and processing times, and the higher financial risks in FCS, which constitute an indirect cost for IFC of doing business in FCS.

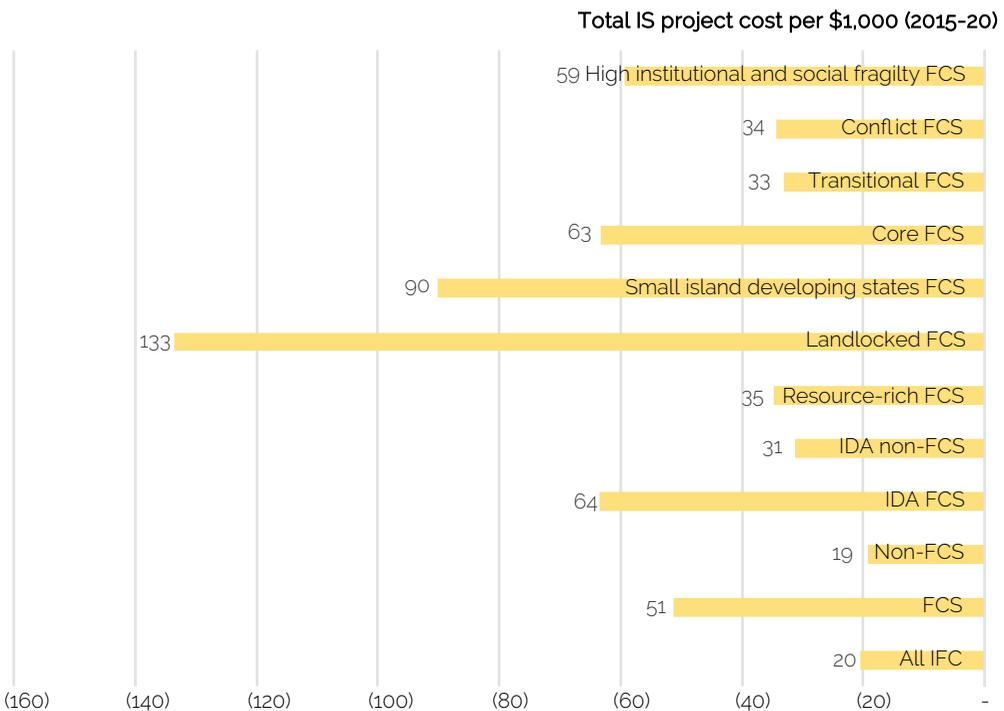
Operating Costs

The cost of doing business in FCS is driven by operational cost and the smaller average project size. The average size of IFC and MIGA projects in FCS countries is approximately half that in non-FCS countries. MIGA’s average guarantee size in FCS is \$58 million compared with \$194 million in non-FCS.

The cost of appraisal and supervision of IFC investment projects in FCS is 2.5 times as high as in non-FCS countries (\$51 compared with \$20 per \$1,000

of lending volume; figure F.1). It is higher still in IDA FCS countries and is especially high in FCS small island states and landlocked countries. This is driven by the increased cost of appraisal (or processing) and supervision in FCS and the smaller average project sizes. Contrary to perceptions of conflict risks, IFC's investments in FCS with high institutional and social fragility were significantly more costly (\$59) than projects in FCS with high- or medium-intensity conflict (\$34) per \$1,000 of investment lending.

Figure F.1. IFC's Cost of Doing Business in FCS, FY2015–20



Source: International Finance Corporation and Independent Evaluation Group staff calculations.

Note: FCS = fragile and conflict-affected situations; IDA = International Development Association; IFC = International Finance Corporation; IS = investment services.

Like IFC, MIGA projects in FCS involve significantly higher costs than projects in non-FCS countries. MIGA's cost of doing business data are available for two years only (FY18–19; table F.1). They indicate that on a per-project basis, the cost coefficient for MIGA FCS projects is only 1.1 times MIGA's average cost. However, the average cost of underwriting per \$1 million of new guarantee issuance exposure is about 2.5 times MIGA's average, again reflecting the smaller size of projects in FCS. As with IFC, complete financial return data for guarantees in FCS are not available.

Table F.1. MIGA's Cost of Doing Business in FCS, FY18–19

	Per US\$1 Million of New Issuance	Projects (no.)
Average cost	2,043	432,390
Cost coefficients		
IDA FCS	1.9×	1.3×
Climate finance	2.0×	0.6×
Non-IDA FCS	0.8×	0.9×
FCS	2.5×	1.1×

Source: MIGA staff calculations.

Note: × = multiplied by; FCS = fragile and conflict-affected situations; FY = fiscal year; IDA = International Development Association; MIGA = Multilateral Investment Guarantee Agency.

Resource Intensity

The resource intensity is linked to the need for increased project preparation and capacity building for clients, staff presence, and the longer time horizons required for project gestation. Upstream engagements by IFC or jointly with the World Bank prepared the ground for most reviewed IFC and MIGA projects in FCS. Ten of the 12 cases involved IFC advisory services that were essential to support project development, including through the Conflict Affected States in Africa initiative and IFC SME Ventures, IFC's transaction advisory services, and capacity building. Most reviewed projects also required upstream collaboration with the World Bank and coordination or cofinancing with other development finance institutions. Collaborative efforts can promote synergies and risk-sharing but also involve higher costs for coordination.

IFC advisory staff presence in FCS indicates a recognition of the greater need for advisory services in those countries. Over the FY15–20 period, 41 percent of IFC staff in FCS were from the advisory stream versus 22 percent in non-FCS countries. By contrast, 45 percent of IFC staff in FCS were from the investment stream versus 57 percent in non-FCS countries. The considerable difference in the profile of staff indicates that IFC is cognizant of the need for greater upstream investment in gathering market intelligence and in creating the conditions for possible future investments in FCS. These are

necessary and valuable investments for developing the private sector in FCS. The cost of advisory services is additional to the operating costs, and unless they are financed by trust funds, they would contribute to the higher cost of doing business in FCS.

During FY10–20, about one in six advisory services projects were in FCS. Advisory services projects in FCS averaged 17 percent by number and 15 percent of funds managed by IFC for all advisory projects, supported by Conflict Affected States in Africa, a multidonor trust fund that provided funding for 67 advisory projects during FY10–19.

The time required to prepare projects in FCS compared with non-FCS countries is another dimension of resource intensity. During FY10–20, IFC approved 3,024 investment projects, of which 221 were in FCS countries. For all these projects, the Independent Evaluation Group compared the time spent from Concept Note approval to first disbursement as the indicator of processing time. The average processing time for projects in FCS is 538 days—30 percent greater than that in non-FCS countries, which average 413 days. The difference between IDA FCS (541 days) and IDA non-FCS (464 days) is also quite significant, suggesting that fragility is correlated with longer processing times.

Trade-Offs and Implications

Despite the higher costs of doing business in FCS, the cost of risk aversion in FCS outweighs the downside of higher costs. IFC and MIGA have a critical role to play in helping FCS evolve toward more effective market economies. The upstream investments in advisory services involving longer processing times and costs have the potential to grow IFC's business in FCS, as evidenced by the performance of repeat clients, to help FCS graduate out of fragility as countries such as Côte d'Ivoire, Liberia, and Sierra Leone have managed to do. Furthermore, the small size of average projects in FCS means that the overall impact of riskier projects on IFC's balance sheet does not represent a major threat to its bottom line. Additional instruments like Conflict Affected States in Africa and the Private Sector Window also help reduce the costs and risks to IFC in FCS.

Reference

IFC (International Finance Corporation). 2016. “What It Would Take to Scale Up IFC Activities in Fragile and Conflict Situations and Low-Income IDA Countries.” International Finance Corporation, Washington, DC.

Appendix G. IFC and MIGA Portfolios

Portfolio Methodology

The Independent Evaluation Group (IEG) used the International Finance Corporation (IFC) Management Information System (MIS) database for the IFC investment services analysis. Long-term commitment volumes include IFC's own account based on the MIS original commitment volumes at the time of first commitment under the project ID, plus rights issues, and risk management in the overall volume amounts per the MIS. Project count excludes rights issues, B-loans, risk management, and short-term financing.

For IFC advisory services, IEG used IFC's Advisory Services Operations Portal database. Only relevant portfolio or complete project stage operations with clients, client/sponsor development, or sector development/market creation were included in the analysis.

IEG used the Multilateral Investment Guarantee Agency (MIGA) Contracts Issued, reported in *Business Intelligence*. The data set can be extracted from *Business Intelligence* as a PDF (summary) or in CSV (detailed) format. IEG used both formats to arrive at the project count. Additionally, IEG cross-checked the information with the information presented in MIGA's audited annual reports to ensure that the total number of issued contracts, number of projects, gross and net exposures amounts, and other variables reported are consistent with the totals reported by MIGA. In case of discrepancy between IEG's calculations and MIGA reported totals, IEG and MIGA reconciled differences.

Fragile and conflict-affected situations (FCS) classifications are based on the World Bank Group (harmonized) lists of fragile and conflict-affected situations (see below) at fiscal year (FY) of project commitment for IFC investment services, projects, implementation plan approval for IFC advisory services, and year of issuance of the first guarantee for MIGA projects with MIGA audited annual reports.

Differences with IFC Portfolio Calculations

Although IEG uses an IFC source for its analysis of IFC commitment data (MIS), there are differences in the calculation between the numbers provided in this report and those reported by IFC for its long-term own account financing in FCS. The differences between IFC and IEG's analysis arise primarily from (i) differences in the definition of FCS and (ii) the treatment of regional and global projects in the FCS portfolio.

Regarding the definitional aspects, IEG uses the World Bank's harmonized list before FY20 and the list established by the World Bank Group's FCV strategy from FY20 (which was formally adopted by the Board of Executive Directors) as the benchmark for IEG's analytical work. For consistency when evaluating the three Bank Group institutions, IEG uses the harmonized list (and subsequently the fragility, conflict, and violence strategy list) without adjustments, as the list follows a rigorous approach for when countries are added or removed. IFC (and MIGA) expand on the list by extending it by three years. Thus, IFC (and MIGA) would report an investment (guarantee) in FY18 as FCS for a country that has graduated from the list in FY15. IFC has adopted this convention starting in FY15, and it creates a discrepancy of \$495 million over the period of the evaluation (or about 9 percent of the amount reported by IEG for the period). However, for comparability across the Bank Group institutions and with other development finance institutions, because of the formal methodology underpinning the (harmonized) lists, and because the data based on IFC's new approach cover only a partial period of the evaluation, IEG uses the harmonized list for this evaluation.

Regarding regional and global projects, IEG excluded those from the commitment graphs for data availability reasons. The evaluation included regional projects in the country and project case studies, and findings from these feed into the overall conclusions of the report. The IFC database used by IEG (MIS) does not contain an FCS flag for regional projects, as they cover both FCS and non-FCS countries. IFC's methodology for attributing commitments from regional and global projects to FCS countries has evolved over time. A different database used by IFC (the commitment report database) has such a tag, but it only starts in FY15 and is based on IFC's methodology of classifying

countries as FCS (harmonized list plus three years after graduation). This results in a discrepancy of \$640 million over the period of the evaluation (FY10–21). But because of the changes in the methodology during the period (no regional projects tagged between FY10 and FY14, tagging of regional projects as 100 percent in FCS between FY15 and FY19, and tracking the percentages of FCS projects since FY20), that expands the definition of what should be included in the portfolio during the timeline. As the time series includes a shifting definition, IEG decided to exclude the regional projects from the portfolio analysis.

Appendix H. International Finance Corporation in Fragile and Conflict-Affected Situations: Lessons from Five Projects

Findings from a Cluster of Project Performance Assessment Reports

Scope and Objectives

In fiscal year (FY) 20–21, the Independent Evaluation Group (IEG) engaged in a Project Performance Assessment Report (PPAR) cluster program with the International Finance Corporation (IFC) to inform IFC’s approach to scaling up its engagements in fragile and conflict-affected situations (FCS)¹ countries through new modalities, instruments, and initiatives. This note synthesizes evaluation findings from that cluster consisting of five PPARs of IFC projects in FCS countries approved over FY00–16:² four investment services (IS) and one advisory services (AS). These five PPARs represent examples of the implementation of IFC’s 3.0 strategy in FCS countries. Although the results cannot be extrapolated to IFC’s total FCS portfolio, they provide lessons from which IFC can learn and enhance its FCS strategy. Where relevant, the note also makes reference to the findings of IEG’s synthesis evaluation conducted in 2019: *The International Finance Corporation’s Engagement in Fragile and Conflict-Affected Situations: Results and Lessons* (World Bank 2019).

PPAR Project Selection

To define the PPAR cluster, IEG purposefully selected five projects that reflected specific modalities and instruments deployed by IFC to support investments and private sector development in FCS. IFC’s FCS strategy aligns with its 3.0 strategy of working with the World Bank Group to improve the enabling environment via the Cascade. All projects selected as PPARs share the follow-

ing characteristics: (i) were based in FCS countries at the time of investment; (ii) deployed an FCS-specific instrument or modality; (iii) included a combination of IS and AS; (iv) were committed after or during “upstream” Bank Group/IFC engagements;³ and (v) were consistent with host country priorities identified in Country Partnership Frameworks and Systematic Country Diagnostics. As such, these projects serve as examples of the systematic approach to project selection, coordination, and collaboration across the Bank Group stipulated by IFC 3.0. Four projects were based in FCS countries in focus regions (Democratic Republic of Congo and Myanmar) and in sectors that represent strategic themes: micro, small, and medium enterprises lending, small and medium enterprises (SMEs) funds, and infrastructure.

Summary of Findings

The findings from the five PPAR deep dives confirmed the findings of the 2019 synthesis evaluation. Both evaluation exercises found that IFC projects in FCS benefited from sustained Bank Group efforts to improve the investment climate, repeat engagements with strong project sponsors, and the presence of IFC client-facing advisory services. They both found that doing business in FCS was costlier than in non-FCS countries due to high structuring and administrative costs stemming from IFC’s intensive engagement during implementation.

Bank Group and IFC Upstream engagements to improve the business regulatory environment in project countries benefited some, but not all, of the PPAR projects. Although IFC and the Bank Group were engaged in Upstream policy reforms prior to the launch of these projects, the reforms did not benefit all the projects. In Democratic Republic of Congo, legal and regulatory reforms had minimal impact on the projects because of lack of implementation by government agencies. It should be clarified that the Upstream engagements took place before IFC’s systematic deployment of Upstream in FY20 and FY21.

All PPAR projects benefited from combined client-facing IFC IS and AS engagements. In three projects, IFC provided client-facing advisory services prior to or at the same time as financing to help improve the outcomes of the investment projects. Through multiple IS and AS engagements, IFC helped

clients improve corporate governance practices, environmental and social policies and practices, and risk management practices. IFC also helped develop new products and enter new business lines.

All PPAR projects benefited from strong and committed sponsors, with relevant experience and sufficient financial resources to withstand market volatility and allow project enterprises to achieve financial sustainability. Most of the sponsors were leaders in their respective markets and had learned to successfully navigate the difficult FCS operating environments. However, even these strong and committed sponsors depended on capital and advisory support from IFC and other donors to ensure project viability. Although not part of the PPAR selection criteria, most of the projects were with repeat clients to whom IFC had provided previous financing or advisory services or both.

Fragility, conflict, and violence had an impact on all the PPAR projects to varying degrees. The fragile political environment coupled with the weak macroeconomic environment adversely affected the growth and sustainability of the achieved results. The projects located in the Democratic Republic of Congo and Central African Republic were the most affected by conflict and violence. All five PPAR projects were affected to some degree by weak and opaque regulatory environments, limited government experience and expertise, and insufficient implementation of business climate reforms.

IFC achieved low financial returns on the PPAR investment projects relative to ex ante expectations. PPAR returns were even lower when factoring in the total cost of doing business in International Development Association (IDA) or FCS countries, including grant funding and advisory services. The more difficult operating environments require higher structuring, operating, and supervision costs. From FY11 to FY15, the returns for IFC projects in FCS were significantly lower than for IFC overall.⁴

Background: New IFC Modalities of Engagement and Instruments in FCS

Low-income IDA countries and FCS have become an urgent development priority for the Bank Group, since poverty has increasingly concentrated in

these countries. IFC and the private sector investors face substantial constraints to doing business in FCS countries, including a weak (and often volatile) investment climate and legal environment, limited government experience and expertise, weak institutions and governance, weak sponsor capacity, lack of investment opportunities, high project costs, and lack of foreign currency hedging products. As part of the 2018 capital increase package, IFC committed to deliver 40 percent of its investment program in IDA and FCS countries, out of which 15 to 20 percent would be in low-income country (LIC) IDA and IDA FCS by 2030. IFC has concluded that scaling up its portfolio in FCS can only be met through a more focused, targeted, and sustained approach.⁵ To ramp up its FCS portfolio, IFC has introduced several new mechanisms, instruments, and initiatives aimed at supporting its strategy. However, many of the new FCS modalities and instruments are recent, and their outcomes have yet to be evaluated.

IFC first identified FCS as a strategic priority in 2008, and it formulated its first FCS strategy in 2012, aiming to increase its own account investments in FCS by 50 percent by 2016. Subsequent strategies further integrated FCS into IFC's core strategic priorities as IFC refined its approach and introduced several initiatives and instruments to support its engagement in FCS. The impetus to create markets in FCS countries was enshrined in IFC's 3.0 strategy introduced in late 2016. Under IFC 3.0, IFC proposed to take a more systematic approach to project selection, coordination, and collaboration across the World Bank.

On the investment services side, IFC has introduced several new products to serve FCS. The IDA Private Sector Window (IDA PSW) was created under IDA18 (18th Replenishment of IDA) to catalyze private sector investment in IDA countries, with a focus on FCS. The IDA PSW is deployed through four facilities, of which three are managed by IFC: the Risk Mitigation Facility, the Local Currency Facility, and the Blended Finance Facility (BFF).⁶ IFC's BFF allows IFC to fill financing gaps by addressing market barriers and attracting private sector investments to areas of strategic importance with high development impact, including IDA and FCS, climate change, gender, agribusiness, SME finance, human capital and refugees, and host communities. The IDA PSW built on IFC's existing blended finance programs, including the

Global Agriculture and Food Security Program PSW, the Global SME Finance Facility, and the Blended Climate Finance programs. IFC introduced the SME Ventures Funds program in 2009, which launched four SME-focused private equity funds in FCS countries.

On the advisory services side, IFC introduced the Conflict Affected States in Africa program in 2008, which provides advisory services financed by donors to create enabling conditions for the private sector in Africa. In 2017, IFC introduced the Creating Markets Advisory Window, a funding source for AS programs in FCS and IDA countries. On the government-facing side, IFC works with Bank Group joint Global Practices to help governments address barriers to private sector growth. IFC's Public-Private Partnership (PPP) Transaction team works with government clients to structure projects in education, infrastructure, and health care, drawing on Bank Group expertise in sector policy, legal and regulatory frameworks, institutional reforms, tariff structures and regulation, and international best practices. Over the past two years, IFC has changed its AS strategy to ensure a closer link between AS and Upstream.⁷

Evaluation Findings from a Subset of FCS Projects from IFC Portfolio

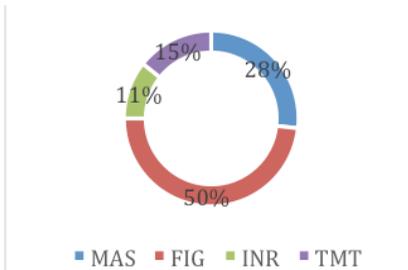
In addition to data collected from the five PPAR projects, IEG also conducted a portfolio review of FCS projects that have already been self-evaluated by IFC and validated by IEG. The portfolio-level data were derived from IEG's synthesis evaluation, *The International Finance Corporation's Engagement in Fragile and Conflict-Affected Situations: Results and Lessons* (World Bank 2019). The data set is composed of 56 IFC investment projects in FCS and 824 projects in non-FCS that were approved between FY03 and FY15 and evaluated between 2005 and 2018. The overall evaluated FCS portfolio provides good background information for the five purposefully selected PPAR projects.

The charts in figure H.1 show characteristics of the 56 evaluated FCS projects. Fifty percent of the projects originated from the Financial Institutions Group; 28 percent originated from Manufacturing, Agribusiness, and Services; 15 percent from Telecom, Media and Technology; and 11 percent from Infrastructure and Natural Resources sectors (figure H.1, panel a). Most of the projects

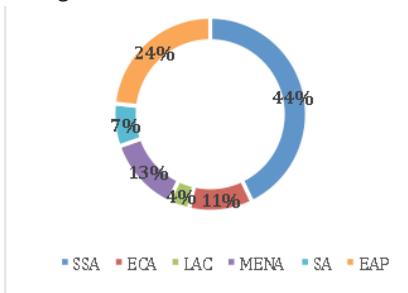
(44 percent) were located in Sub-Saharan Africa, while almost 25 percent were located in East Asia and Pacific (figure H.1, panel b). The largest portion (44 percent) of the projects were small, less than \$5 million in IFC commitment size. Of the remainder, 26 percent had project sizes of \$5 to \$20 million and 33 percent had project size of more than \$20 million (figure H.1, panel c).

Figure H.1. Characteristics of FCS Projects

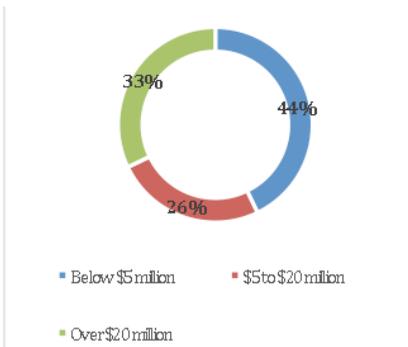
a. Industry groups



b. Regional breakdown



c. Commitment size



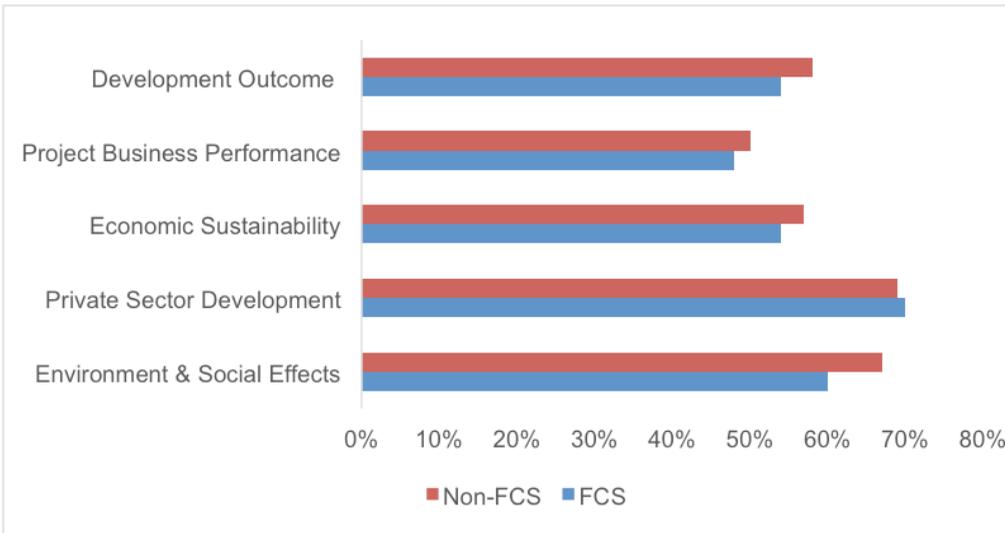
Source: World Bank 2019.

Note: Panel a: MAS = Manufacturing, Agribusiness, and Services; FIG = Financial Institutions Group; INR = Infrastructure and Natural Resources; TMT = Telecoms, Media and Technology. Panel b: SSA = Sub-Saharan Africa; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SAR = South Asia; EAP = East Asia and Pacific.

Three of the five PPAR projects (60 percent) originated out of the Financial Institutions Group; one (20 percent) out of Telecom, Media and Technology (now CDF); and one (20 percent) out of Infrastructure and Natural Resources. Two of the projects (40 percent) were located in Sub-Saharan Africa, while three (60 percent) were located in East Asia and Pacific. One of the projects (20 percent) had an IFC commitment size of less than \$5 million, while four (80 percent) were between \$5 million and \$20 million (including the AS project). As such, the five PPAR projects had characteristics similar to the portfolio of 56 evaluated FCS projects.

Overall, projects in FCS performed almost as well as projects in non-FCS countries. In terms of development outcome, 54 percent of FCS projects were rated **mostly successful** or above, compared with 58 percent for non-FCS projects (see figure H.2). The projects performed similarly on project business performance and economic sustainability. In terms of environmental and social effects, FCS projects performed worse, while on private sector development, FCS projects performed slightly better. Financial Institutions Group projects in FCS performed a bit worse than they did in non-FCS (56 percent versus 60 percent success rate). These results were achieved despite higher political, security, and macroeconomic risks in FCS, as well as more difficult operating environments.

Figure H.2. Project Outcome Ratings



Source: World Bank 2019.

The same portfolio analysis reviewed 79 advisory services interventions in FCS approved between FY05 and FY15 that were validated by IEG. Of these, 47 percent achieved **mostly successful** ratings or above on development effectiveness compared with 56 percent in non-FCS countries. Fewer than one-third of advisory services with links to investments supported upstream work (for example, a transaction structuring or a feasibility study). Among the advisory projects that were validated by IEG since FY08, there were 10 PPP projects in FCS countries. Among these, seven were power projects, two were airports, and one was a road. About 30 percent of the projects were in the East Asia and Pacific region, while 20 percent were in Latin America and the Caribbean, Middle East and North Africa, and the South Asia region. Additionally, 10 percent were in Europe and Central Asia. Among the 10 PPP projects, two (20 percent) were above the line in terms of development effectiveness, seven were below the line, and one was inconclusive. The 20 percent success rate was much lower than non-FCS PPP advisory projects (52 percent) as well as overall FCS advisory projects (47 percent). The seven projects with the negative development effectiveness rating suffered from the change of government approach or weak government commitment. The reason for governments' approach changes included weak fiscal situation of the government, change of the government as a result of an election, the government's concern about high fees or tariffs or both required for cost recovery, and change of technical requirements. These factors reflect overall weak capacity of the governments in FCS. There was one project where the security situation affected the project's results. These factors are common in FCS countries.

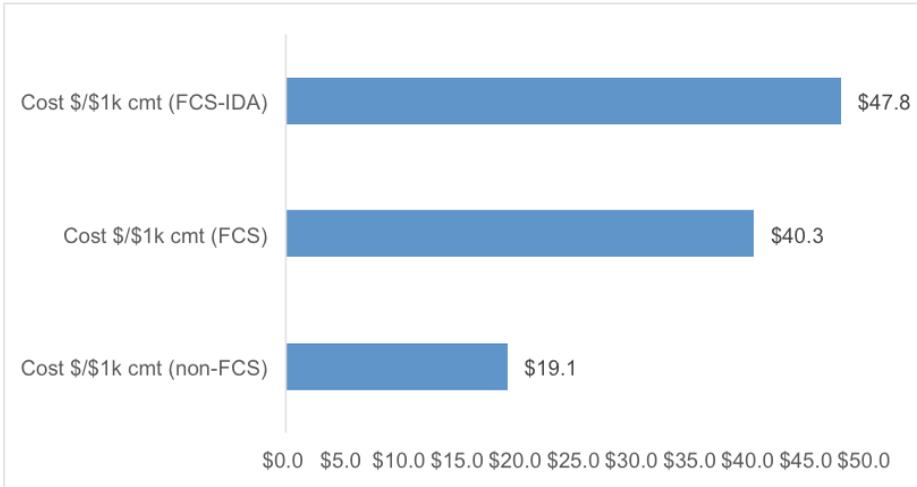
The most pertinent findings from the portfolio analysis on the large set of FCS projects are as follows:

- » **Strong project sponsors helped mitigate high country or market risks or both.** Working with existing clients to enter a new FCS has been an effective business development model because sponsors value IFC's relationships with governments, its knowledge and expertise, and environmental and social standards. Long-term strategic partnerships with repeat clients can help achieve better outcomes in FCS.
- » **IFC client-facing advisory services enhanced the capacity of some sponsors.** Given the low-capacity environment in many FCS countries, deploying

advisory services can help strengthen corporate governance, train staff and managers, develop new products, and strengthen risk management.

- » **IFC sector-level AS engagements were helpful but insufficient to overcome constraints to private investment in FCS.** Results of these investments in climate reform engagements were often hampered by lack of implementation by host country governments. Resolving market constraints is a long process requiring long-term policy dialogue between the Bank Group and governments. Projects in FCS can be enhanced by greater collaboration among Bank Group institutions and coordination with other development partners.
- » **Upstream efforts to identify and conceive feasible projects have been a promising business development approach for IFC in FCS.** Investment opportunities are typically infrequent in FCS markets and require long gestation periods. Working upstream can stimulate the conditions that result in bankable investment opportunities.
- » **PPP advisory projects, which suffered from a change in government approach or weak government commitment, had negative outcomes.** Changes in government approach stemmed from several factors, including a weak fiscal situation, an election, government concerns about high fees or tariffs or both required for cost recovery, and changes of technical requirements. These factors reflect an overall weak capacity of the governments in FCS.
- » **Doing business in FCS was costlier for IFC than doing business in non-FCS, even if investment outcomes were similar.** Based on IEG analysis of IFC cost data for FY15–19, the total project expenditure in FCS was about twice that of a non-FCS country (\$48 versus \$19 per \$1,000 in IFC commitments) ; see figure H.3.⁸ Higher operating costs to process and supervise projects in FCS were identified as a major driver for the difference in costs. Based on FY11–15 average RAROC results, the returns in FCS and Low-Income IDA were significantly less than for IFC overall.⁹ The main drivers of the difference in results were higher project structuring and operating costs that reflected the more difficult operating environments.

Figure H.3. Total Project Expenditure in IFC Commitments



Source: World Bank 2019.

Note: Total expenditure per \$1,000 in IFC Commitment.

Evaluation Findings from Deep Dives into the Five PPARs

The five projects selected for the PPAR cluster included three MSME lending projects, one SME-focused investment fund, and one PPP advisory services project. They all deployed at least one FCS-specific instrument or modality, including combined IFC investment and advisory support, Blended Finance, Upstream AS, and the SME Ventures Funds program.

Development Outcomes: All five PPAR projects were successful, having overall development outcome ratings of **mostly successful** or higher (three were rated **successful** and two were rated **mostly successful**). However, this is not typical of IFC’s experience in FCS. As noted in the portfolio analysis, of the 56 evaluated projects, only 54 percent of evaluated FCS projects during the same time period were rated **mostly successful** or above. Furthermore, the PPARs were more weighted toward financial services (80 percent), compared with the FCS portfolio, in which financial services composed 50 percent of the projects.

What Worked Well

Bank Group and IFC Upstream¹⁰ engagements to improve the business regulatory environment benefited some, but not all, of the PPAR projects. The findings demonstrate that sustained and practical engagement from the Bank Group and other multilateral development banks over an extended period is required to enhance the regulatory environment and help private sector clients. The Bank Group should collaborate with other development partners to ensure concerted efforts and controlled costs, with an appropriate sequencing and division of labor focusing on strengths of the institutions and collaboration based on good teamwork. The Bank Group must work with various stakeholders to ensure there is a sufficiently large consensus for enacting reforms. Although this may require numerous engagements over a long period of time, such efforts are required to produce meaningful results, secure stakeholder acceptance, and ensure proper implementation of reforms. Otherwise, the investment climate reforms may only exist as written documents.

Resolving market constraints and improving the business environment are often long and difficult processes that require sustained efforts from the Bank Group and its development partners. In some FCS markets such as Democratic Republic of Congo, it may take a longer time to improve the legal and regulatory environment. Sustained engagement from the Bank Group and its development partners may be required to enact substantive change in the legal and regulatory environment. Similarly, it may take a longer time to develop bankable projects in FCS countries that have limited experience with the private sector. Upstream engagement from the Bank Group and its development partners can help identify relevant projects in FCS countries where bankable projects are scarce. IFC can provide practical guidance to sponsors as to not only what needs to be done but also on how it needs to be done.

All of the PPAR projects benefited from joint IFC IS and AS engagements. In three of the projects, IFC provided client-facing advisory services alongside financing to help improve the outcomes of the investment projects. IFC advisory services are an effective tool that can be deployed in FCS to

improve client capacity where local business knowledge or experience or both are limited. “Learning by doing” ensures that practical implementation is instilled, knowledge is retained, and local capacity is developed. IFC’s institution-building efforts in FCS should be all-encompassing and sustained. Providing only small levels of support or financing may not succeed, may be short-lived, and may even leave the client worse off than before the support was provided.

The provision of advisory services to each PPAR client contributed to improved development outcomes and financial sustainability. Deploying a well-sequenced combination of IS and AS products to the same client over several engagements can enhance the chances for success in FCS markets. This can slowly build up the client’s institutional capacity over time, prepare it for new phases of growth, and impart practical skills in terms of implementation. Such training should be repeated to ensure proper skills development and because of staff turnover in these institutions. Advisory support can be further enhanced by partnering with other donors, although support should be coordinated to avoid duplication of efforts. On financial sector engagements, IFC should focus first on strengthening a client’s institutional framework before providing financing for SME lending. This is more the case in FCS countries, where banking supervision is weak and does not properly impose institution-building requirements on banks.

All five PPAR projects benefited from strong and committed sponsors with sufficient financial resources to withstand market volatility and allow the enterprise to grow and achieve financial sustainability. Most of the sponsors were leaders in their respective markets that had learned to successfully navigate the difficult FCS operating environments. However, even these strong and committed sponsors depended on patient capital and advisory support from IFC and other donors to ensure the projects were viable. Furthermore, working with only the top market players could have deleterious effects on the country’s economy by restricting competition or encouraging monopolistic behavior. IFC should take care not to create monopolistic situations that would limit competition and have market-distorting effects to the detriment of the country.

Partnering with strong and experienced sponsors may be a prerequisite for success in FCS markets. However, this alone may not be enough. Projects in FCS may also need extensive donor support for capacity building or other technical assistance to help achieve sustainable development impacts. Developing local capacity is also important so that knowledge and expertise can be transferred to local staff. By playing a “hands-on” role through close monitoring and supervision, IFC can help transfer knowledge to locals, which will ensure sustainability after IFC support is withdrawn. Although IFC’s strategy of partnering with market leaders may be a potentially successful strategy in the short run, IFC should be cautious about creating market-distorting effects. IFC should work on developing the entire market, creating healthy competition that incentivizes innovation and improves the availability and affordability of goods and services.

All PPAR projects benefited from sustained, long-term engagement from IFC. Most projects were with repeat clients to whom IFC had previously provided financing and/or advisory services. IFC had become familiar with these clients through its long-term engagements and supported the clients at different stages of growth and development. Through multiple IS and AS engagements, IFC helped clients improve corporate governance practices, environmental and social policies and practices, and risk management practices; develop new products, and enter new business lines. The long-term relationships have been fruitful for IFC also by resulting in additional financing opportunities, including those in countries other than the ones where IFC’s initial client was located.

Long-term, sustained support at different stages of growth and transformation created conditions for success in all of the PPAR projects. IFC’s continuous engagement and long-term support were critical to building local expertise, given the various constraints in FCS countries. IFC’s continued presence can give comfort to private investors in the event of unpredictable government behavior in FCS countries.

What Did Not Work So Well

Fragility, conflict, and violence impacted all of the PPAR projects to varying degrees. However, the projects located in Democratic Republic of Congo and

Central African Republic were the most affected by conflict and violence during the review period. Full-blown civil war in Central African Republic and prolonged civil unrest in Democratic Republic of Congo negatively affected the performance of the evaluated projects. Although the projects in Myanmar were not affected by conflict during implementation, the country has recently been rocked by a military coup and escalating internal violence. In FCS countries, violence can affect the operating environment at any time, and this should be factored into project forecasts.

The fragile political environment coupled with the weak macroeconomic environment adversely affected the growth and sustainability of the achieved results. All five PPAR projects were affected to some degree by weak and opaque regulatory environments, limited government experience and expertise, and insufficient implementation of business climate reforms. In some FCS markets, there is strong resistance to reforms from entrenched interest groups who benefit from market distortions and special privileges. At the time of IFC investment, all of the countries were in the process of transitioning from command economies to market-oriented systems. As such, the business enabling environment was weak and the private sector represented only a small share of the economy.

The experience of the PPAR projects shows that in FCS countries, continued and comprehensive engagement by the Bank Group and other development partners is critical to ensuring government commitment to implement the necessary measures to create markets. Elite capture and institutional weakness prevent the implementation of transparent economic, legal, and regulatory reforms. The Bank Group should strive to encourage governments to go beyond passing new laws and regulations and focus on effective implementation.

The full cost of doing business in FCS was very high, resulting in low financial returns for IFC. In four out of the five PPAR projects, IFC achieved low financial returns on the investment projects, especially when factoring in the high administrative costs. Furthermore, the extensive advisory support in the form of grant subsidies reduced IFC's total returns on the PPAR investment projects. More holistic accounting would provide more transparency on the full cost of development interventions in FCS.

The total cost of doing business in IDA/FCS countries can be quite high when all financial support is considered, including grant funding. Associated advisory services activities are often hidden costs to projects. Small projects in high-risk countries such as Myanmar and Democratic Republic of Congo are typically unable to cover administrative costs. Thus, there can be a trade-off between development and financial returns for investments in IDA/FCS markets, particularly in the case of small projects. If donors do not collaborate, it may result in wasted resources or missed opportunities to have a broader impact.

Reference

World Bank. 2019 *The International Finance Corporation's Engagement in Fragile and Conflict-Affected Situations: Results and Lessons*. Washington, DC: World Bank.

¹ FCV is defined as “fragility, conflict, and violence—the conditions that affect many countries and subnational areas” and is mainly used by the World Bank. FCS (fragile and conflict-affected situations) is defined as “countries and territories on the latest World Bank Harmonized List of Fragile Situations.”

² Project Performance Assessment Reports (PPARs) typically involve field visits to projects and on-site meetings with stakeholders and beneficiaries. However, due to the onset of the coronavirus (COVID-19) in early 2020, the expected field visits were canceled, and the PPAR field visits were converted to “virtual site visits.”

³ The “upstream” engagements took place before IFC’s systematic deployment of Upstream in fiscal years (FY)20 and FY21.

⁴ *What It Would Take to Scale-Up IFC Activities in Fragile and Conflict Situations and Low-Income IDA Countries*, April 25, 2016.

⁵ “Thematic Brief: Investing in Low-Income IDA and FCS,” March 2019.

⁶ The fourth International Development Association (IDA) Private Sector Window (PSW) facility—the Multilateral Investment Guarantee Agency (MIGA) Guarantee Facility (MGF)—is managed by MIGA.

⁷ International Finance Corporation (IFC) Strategy and Business Outlook Update FY20–22.

⁸ Data are based on IFC project expense data for FY15–19. For more details, see page 19 of IEG’s synthesis evaluation *The International Finance Corporation’s Engagement in Fragile and Conflict-Affected Situations: Results and Lessons* (World Bank 2019).

⁹ *What It Would Take to Scale-Up IFC Activities in Fragile and Conflict Situations and Low-Income IDA Countries*, April 25, 2016.

¹⁰ According to IFC, “Working Upstream” involves staff working across the Bank Group on policy reforms that will bring domestic and international private sector investors into emerging markets. It entails both identifying reforms that will unlock more private investment and creating bankable projects. See *IFC 2020 Annual Report: IFC 3.0, A Strategy for Creating Markets*.



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