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Independent Evaluation of IFC's Development Results 2009: Knowledge for Private Sector Development – Enhancing the Performance of IFC's Advisory Services

Independent Evaluation Group – IFC

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ABBREVIATIONS & ACRONYMS

A2F	Access to Finance (Business Line)
ADB	Asian Development Bank
AfDB	African Development Bank
AMSCO	Africa Management Services Company
APDF	Africa Project Development Facility
AS	Advisory Services
BEE	Business Enabling Environment
CA	Corporate Advice (Business Line)
CAS	Country Assistance Strategy
CEE	Central and Eastern Europe
CES	Environmental and Social Department
CFN	Funds Department
CGF	Global Financial Markets Department
CIA	Infrastructure Advisory Department
CIC	Corporate Investment Climate Department
CIDA	Canadian International Development Agency
CIT	Global Information & Communication. Technology Department
COI	Conflict of Interest
CY	Calendar Year
DANIDA	Danish International Development Agency
DDP	Development Data Platform
DFID	Department for International Development
DFO	Donor Funded Operation
DO	Development Outcome
DOTS	Development Outcome Tracking System
EAP	East Asia Pacific
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
ECG	Evaluation Corporation Group
EIB	European Investment Bank
ERR	Economic Rate of Return
E&S	Environment and Safeguards
ESS	Environmental and Social Sustainability
FI	Financial Intermediary
FMO	Financierings-Maatschappij voor Ontwikkelingslanden *(Dutch: Netherlands Development Finance Company)*
FMTAAS	Funding Mechanism for Technical Assistance and Advisory Services
FRR	Financial Rate of Return
FY	Fiscal Year
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IEDR	Independent Evaluation of IFC's Development Results
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IIC	Inter-American Investment Corporation
IICCR	Institutional Investor country credit (rating)
IIF	Institute of International Finance
INF	Infrastructure (Business Line)
IO	Investment Outcome
IS	Investment Services
IsDB	Islamic Development Bank
KEI	Knowledge Economy Index
LAC	Latin America and the Caribbean
M&E	Monitoring & Evaluation
MDB	Multilateral Development Bank
MENA	Middle East and North Africa
MIGA	Multilateral Investment Guarantee Agency
MIS	Management Information System
PEP	Private Enterprise Partnership
PCR	Project Completion Report
PPPs	Public Private Partnerships
PSD	Private Sector Development
RAEDO	Risk Adjusted Expected Development Outcome
SAR	South Asia Region
SADF	South Asia Development Facility
SECA	Southern Europe and Central Asia
SIDA	Swedish International Development Cooperation Agency
SME	Small– and medium–sized enterprise
SSA	Sub–Saharan Africa
TA	Technical Assistance
WACC	Weighted average cost of capital
WB	World Bank
WBG	World Bank Group
WDR	World Development Report
XPSR	Expanded Project Supervision Report

Definitions

Investment operations:

Company:	The entity implementing the project and, generally, IFC's investment counter–party; for financial markets operations, it refers to the financial intermediary (or fund manager) as distinct from its portfolio of IFC–financed sub–project companies
Operation:	IFC's objectives, activities and results in making and administering its investment
Project:	The company objectives, capital investments, funding program and related business activities being partially financed by IFC's investment selected for evaluation

Example: "Through this *operation* IFC provided $55 million for the *company's* $100 million cement manufacturing expansion *project* in the form of a $20 million A loan, a $30 million B loan from commercial banks and a $5 million equity *investment*"

Financial markets projects:	All projects where the company is a financial intermediary or financial services company, including agency lines and private equity investment funds
Non–financial markets projects:	All other projects; sometimes referred to as "real sector" projects

Advisory Services operations:

Outcomes of AS operations:	Outcomes refer to implementation of recommendations or advice
Impacts of AS operations:	Impacts refer to the changes that occurred following the implementation of recommendation

Example: An AS operation recommended that the country amend the leasing law to incorporate best practice in similar markets in the region. *Outcome* – the country amended the leasing law in accordance with the recommendation. *Impact* – the leasing industry became attractive to potential sponsors as evidenced by new companies that were established following the amendment of the leasing law.

EXECUTIVE SUMMARY

1. Over the last decade, many developing countries have experienced strong economic growth, typically accompanied by falling levels of poverty. The private sector has been a key contributor to this growth, through new capital investment, but also through innovation and entrepreneurship, helping create jobs and opening up new markets. Developing countries with the highest levels of private investment and that have made the widest strides in bridging knowledge and technology gaps with the developed world – from India to the Baltic states – have generally grown the quickest.

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

3. In times like these, IFC's dual role as a financier and as a provider of knowledge (together with the World Bank) assumes particular importance. Concerning the first role, IFC's founding articles state that the Corporation should invest in viable private sector projects in developing countries for which 'sufficient private capital is not available on reasonable terms'.[1] The number of such projects clearly increases as the pool of available private capital declines, including among IFC's key partners, foreign banks and investors – notwithstanding reduced viability of some projects due to shrinking markets. In such crisis times, the onus is on IFC to ramp up its financing efforts. But IFC's role as a knowledge provider (together with the World Bank) is also important, particularly as policymakers and administrators focus on business regulations, good governance, and the environmental and social sustainability of growth. The role entails providing advice that helps shape the conditions for sustainable private sector development – through, for example, promoting more effective regulation – and to enhance the capacity, skills and behavior of actors involved with private sector enterprise on the ground (including effective management of the social and environmental effects of private activities).

4. This Independent Evaluation of IFC's Development Results (IEDR) looks at each of these roles in turn: IFC's effectiveness in financing development, through its growing portfolio of investment operations, with an emphasis on IFC's experience during previous crises and helping clients mitigate investment risks (Part I); and, for the first time and thus the main theme of this report, the Corporation's experience organizing and delivering its Advisory Services (AS) interventions – knowledge services that IFC provides to either private companies or governments in support of private sector development (Part II). In terms of results, the report focuses on IFC investment operations that reached early operating maturity between 2006 and 2008 and IFC AS projects with Project Completion Reports during the same period. The review of AS development effectiveness comes with certain caveats, given the M&E system was only introduced in 2006, and considering the often intangible nature of knowledge transmission. Nonetheless, the report for the first time provides a combined account of both arms of IFC's business (i.e. Investments and AS), including situations where these instruments have been offered to the same client. The report

also complements a recent IEG evaluation of the effectiveness of World Bank Economic and Sector Work and Technical Assistance, which was completed in 2008.[2]

Financing Development

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

6. A growing portfolio provides opportunities to extend the Corporation's development reach. IEG's evaluations of investment operations that reached early operating maturity between 2006–08[3], worth approximately $7 billion[4], show that IFC's project development results (along with IFC financial returns) improved overall. More specifically, 72 percent of evaluated projects (85 percent by volume) achieved outcomes that, on balance, met or exceeded project financial, economic, environmental and social benchmarks and standards, and made positive contributions to private sector development beyond the project. This compares with 63 percent of projects (75 percent by volume) achieving high outcomes in 2005–07. On a cumulative basis, since independent evaluation started in 1996 up to and including 2008, 62 percent of projects (70 percent by volume) have achieved high development outcome ratings.

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

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

9. Among IFC's strategic sectors, project performance showed continued improvement in health and education, was better in agribusiness, and remained strong in infrastructure and financial markets. At the same time, performance lagged in non–telecommunications information technology (software and internet).[5] In other sectors, oil, gas, mining and chemicals projects achieved relatively poor ratings. Risk exposure was clearly a factor in weak non–telecommunications IT projects, most of which were small operations involving inexperienced sponsors and unclear product competitiveness. However, work quality in this sector was also well below par: high in just 40 percent of cases. Improved IFC work quality was in

evidence in the health sector, where IFC showed that it had learned lessons from past experience, but the portfolio has not achieved much diversity. Oil, gas, mining and chemicals projects did not meet benchmarks for a number of reasons: sponsor technical weaknesses; higher than expected asset acquisition cost, and one case of unsatisfactory environmental compliance. Environmental and social effects ratings were stable for real sector projects, but remained weak in Financial Intermediary (FI) operations, reflecting the need to strengthen client capacity and securing commitment, as well as addressing shortfalls in IFC supervision and additionality.

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

11. The development results of maturing operations are, however, expected to decline in the coming years. Past evaluation shows that projects approved in the years prior to the crisis (and being implemented during the downturn) are most at risk from a development perspective. Approximately 40 percent of IFC's portfolio (62 percent by volume) falls into this category, thus the Corporation is exposed to considerable downside development risk. At the same time, IFC has strengthened considerably its internal risk management processes and its capacity to bear and manage financial risks appears to have improved significantly in recent years. Importantly, evaluation suggests that investments approved in the wake of the crisis, i.e. at the bottom of the business cycle, will tend to have better development results. Thus, there are also upside opportunities to be grasped.

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

Knowledge for Development

13. IFC AS have been growing rapidly, with an active portfolio approaching $1 billion and employing 1,262 staff, a sevenfold increase in the last seven years. The nature and face of IFC has changed significantly: AS staff now make up the majority of the Corporation's presence on the ground in developing countries.[6] The rapid growth of AS has happened in a largely unchecked manner. This is well illustrated in the emergence of more than 50 AS products, 18 regional facilities covering seven regions, 13 global business units, and around a half of AS work being contracted out to consultants.

14. Important strategic questions follow. These include whether, in grafting such a substantial knowledge business onto a financing institution, IFC has the appropriate balance of effort between AS and Investment Services (IS) to ensure greatest development impact. Quality trade–offs are also possible, given substantial organizational change, a high reliance on relatively new staff (60 percent have been with IFC less than three years), and outsourcing work through some 1,300 short–term consultants each year. There is also increased possibility of conflict of interest or market distortion – where AS is offered together with financing, or is provided at less than market value.

15. IFC deploys its AS in the pursuit of general objectives that are common with those for IFC investments. These objectives include focusing on frontier markets (including IDA countries and frontier re-

gions of non–IDA countries, as well as SMEs and agribusiness), the strategic sectors of finance, infrastructure, health and education, and support for environmental and social sustainability (including climate change). The allocation of AS resources has been largely aligned with these priorities. That is, IFC AS have generally targeted high need destinations such as IDA countries and Africa in particular.

16. Relevance, however, does not guarantee impact. Fifty–two percent of IFC's AS projects, where ratings could be assigned, were rated high on achieved development impact. Projects rated substantially higher on other dimensions of performance such as strategic relevance, output, and outcome achievement with an overall development effectiveness success rate of 70 percent. Ratings did not change significantly for projects that began before, as opposed to projects initiated after, the major organizational changes in 2005/06. By region, ratings have been substantially better in SECA, and weaker in LAC. Evaluated global projects also did not perform well. By business line, while variation in results is less pronounced than regionally, INF (infrastructure), BEE (business enabling environment), CA (corporate advice) and A2F (access to finance) tend to perform better than ESS (environmental and social sustainability).

17. Looking at the main drivers of results, this review found a strong connection between client commitment (evidenced by contribution to project costs and especially so for ESS projects), strong project design and implementation, IFC's proximity to the client as defined by IFC's local presence and involvement, programmatic (rather than one off) interventions, and effective M&E – and the achievement of development objectives. Strong additionality is fundamental for better performance. High additionality has been particularly noticeable among BEE operations in IDA countries with high business climate risk, and has been evident through some packages of services – such as SME linkage projects in agribusiness, manufacturing and extractive sectors. Such packaging raises potential conflicts of interest, which need to be tackled effectively, and needs appropriate pricing. Intrinsic constraints in capturing the impact of AS are compounded by the relatively weak application of M&E guidelines to date by IFC staff.

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

19. The professionalization of AS, however, remains a work in progress and significant organizational issues still persist: overlapping and parallel implementation structures in several regions (SSA, EAP and SA); few well established products outside of finance and infrastructure; lack of clarity about how AS and IS are best integrated in different contexts; limited consideration of IFC's comparative advantages relative to other knowledge service providers at the strategic and project levels; and no umbrella AS strategic framework to weave different strands together.

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

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

Recommendations

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

***Operations during the Crisis*:**

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

***IFC Role in Advisory Services*:**

- **Set out an overall strategy for IFC advisory services, addressing the need for a clear vision and business framework and more closely linked with IFC's global corporate strategy.** Following years of unchecked growth and recent organizational changes, the role of AS in IFC's business model needs to be addressed. The strategy would need to better articulate IFC compara-

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

- **Pursue more programmatic AS interventions.** Evaluation shows that IFC has achieved better results in AS projects that have been carried out in conjunction with other AS interventions. One–off activities have been less effective. However, programmatic efforts of this kind have been in the minority (about a fifth of all AS projects), and IFC should accordingly seek to expand this type of intervention.
- **Improve execution of the AS pricing policy.** Over the longer term, it would be important to seek client contributions that reflect value and impact, i.e. not just cost, to create a true test of client demand, incentives for better AS delivery, and ensure IFC is being additional.
- **Strengthen AS performance measurement and internal knowledge management**. In the short term, it would be important to have more hands–on M&E support in the field, post–project completion follow up, capturing of lessons from dropped or terminated projects, and more arms–length facility, product and project reviews. In the medium term, it would pay to introduce an XPCR system (akin to the XPSR system for investment operations, and carried out later than the PCR to better capture impacts), more programmatic impact evaluation and impact research, setting results–based targets for AS in its corporate scorecard, and regular benchmarking of IFC AS activities and systems with other providers of knowledge services, including other multilateral development banks and commercial providers. In the longer term, the aim could be to establish a specialized research unit focusing on generating and bringing together private sector development knowledge work.

This report was reviewed by an Advisory Panel of international experts in the area of knowledge and development. Panel members were: Professor Carl Dahlman, Luce Associate Professor of International Relations and Information Technology, Georgetown University School of Foreign Service; Acha Leke, Partner, McKinsey & Company; and Laurence Prusak, founder and former Director, Institute for Knowledge Management. A joint statement by the Advisory Panel is being distributed to the Board under separate cover.

STRATEGIC CONTEXT

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

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

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

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

Growing Participation of the Private Sector in Development

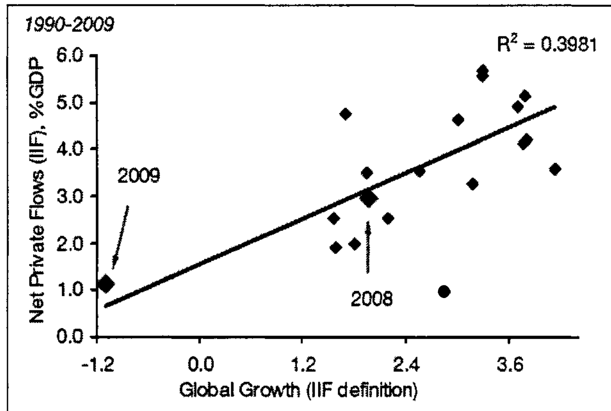
2. In the last decade, many developing countries have experienced strong rates of economic growth, typically accompanied by falling levels of poverty. The private sector has been a key contributor to this growth, through new capital investment, but also through innovation and entrepreneurship, which has helped create jobs and open up new markets. As a general rule of thumb, countries with the highest levels of private investment and that have made the widest strides in bridging the knowledge and technology gaps (and thus enhancing productivity and competitiveness), particularly through private initiative – from India to the Baltic states – have grown the fastest. Figure 1 shows the relationship between private capital flows and economic growth, while Figure 2 shows the association between knowledge accumulation and future productivity.[7]

3. Across a broad range of developing countries, the private sector plays a key role in economic sectors that were previously the domain of the public sector. In many countries, low and middle income alike, the private sector now participates significantly in the delivery of transport (air, road, and rail), telecommunications and health and education infrastructure and services – all facilitators of growth. In 2007, commitments to infrastructure projects with private participation in developing countries amounted to $158 billion (1.1 percent of their GDP), about a half of which was in telecommunications.[8] Overall private fixed capital investment in developing countries, as a share of GDP, was 17.2 percent in 2007, compared to public fixed capital investment of 6.4 percent.[9]

4. The importance of the private sector to developing country growth has been reflected in shifts in the make up of World Bank Group financing and knowledge services. In 2000, the Group's share of financing to the private sector in developing countries (through IFC and MIGA) amounted to $4 billion, approximately a fifth of overall WBG financing. By 2008, driven in particular by a fourfold increase in IFC's investment activities, the private sector share accounted for around $13 billion, or more than a third of WBG financing (Figure 3). This figure does not include indirect support to the private sector, through for example WB loans to governments designed to improve industrial competitiveness. Thus, in effect, the focus on the private sector is even greater than this breakdown indicates. Including WB lending to sovereign entities for 'financial and private sector development', the share of private sector–oriented activity comes to $15.4 billion (or, 40 percent).[10] The make up of WBG knowledge

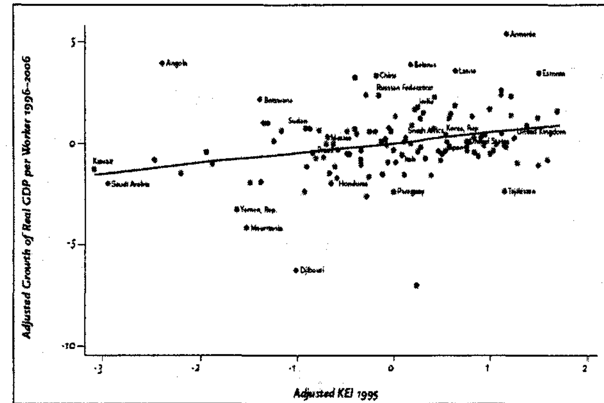
services follows a similar pattern, with just under a half of that now geared to benefit the private sector (Figure 4).[11]

Figure 1. Stronger growth has generally been associated with increased private capital flows



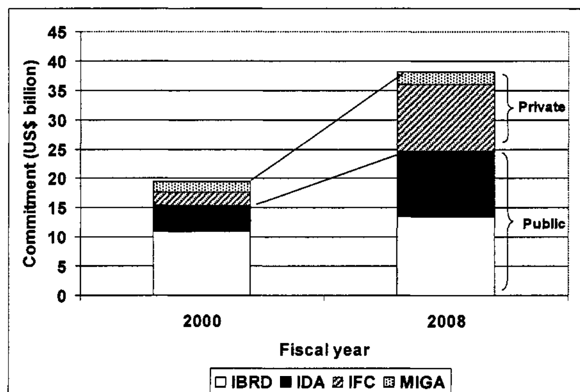
Source: Institute of International Finance

Figure 2. Knowledge accumulation is key for future productivity



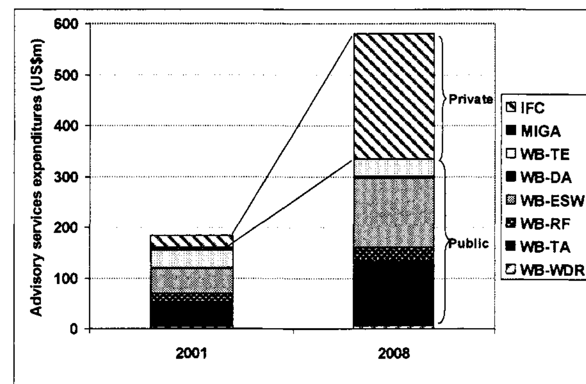
Note: KEI = Knowledge Economy Index, which is adjusted for differences in initial real GDP per capita and growth in capital per worker.[12]
Source: World Bank

Figure 3. Growing share of WBG financing is to the private sector



Source: World Bank, IFC and MIGA databases

Figure 4. WBG knowledge services are increasingly aimed at the private sector



Note: TA – Technical Assistance; ESW – Economic & Sector Work; WDR – World Development Report; RF – Research Services; DA – Donor Coordination ; MIGA AS (Investment Promotion work) is now part of FIAS/IFC.
Source: IFC, World Bank and MIGA databases

5. Other major development institutions, such as ADB, AfDB, EBRD, and IDB, have similarly recognized the importance of the private sector in generating jobs and growth, and have increased their financing and advisory activities devoted to the private sector. In EBRD's case, the private sector share of annual business volume in 2007 reached 86 percent, while for the first time, the majority (60 percent) of AfDB operations in 2007 were directed at the private sector.[13]

Global Financial Crisis

6. The current global financial crisis, on the back of a food and energy crisis, places many of the hard won gains of the last decade under severe threat.[14] The crisis began in the developed world, but it has spread rapidly to the developing world. As a result, GDP growth in developing countries is expected to fall to 4.5 percent in 2009, from 7.9 percent in 2007, driven largely by tighter credit conditions, weaker capital inflows to middle–income countries, and a sharp reduction in global import demand.[15] Net private capital (debt and equity) flows are projected to fall by around a half, dropping from $1 trillion in 2007 to $530 billion in 2009 (from 7.7 percent to 3 percent of developing country GDP). At the same time, remittances that workers send to home countries (another important source of capital inflow, which reached an estimated $283 billion in 2007) are also projected to decline.[16] Experience suggests that whether crises start in the real sector or the financial sector, they have negative development and welfare effects across the board because of the concomitant drop in nutrition, education, health care and social spending.

7. The crisis, while different in origin and scope than prior developing country crises, has similarly exposed weaknesses in the functioning and effectiveness of financial markets, as well as the various non–market institutions that oversee them.[17] Many banks and non–bank financial institutions in advanced economies have exhibited inadequate levels of risk management and governance, which have put their balance sheets (and, inter alia, their financing activities in developing countries) at risk. On the other side, public sector institutions have also fallen short in their regulatory and oversight duties.

8. Aside from the financial crisis, which has major economic and social ramifications, other substantial development challenges remain. They include the perennial demand for basic needs infrastructure, such as hospitals and schools. Coming on top of this is the pressing need to tackle climate change. Unless current trends are reversed with respect to carbon emissions and the underlying patterns of resource use, scientists concur that prospects for sustaining any degree of economic growth will be undermined, and all bets are off in some of the results scenarios. Yet, the crisis of climate change is receiving less attention at the present time, largely because of the heightened concern about the current financial crisis. Nonetheless, it presents a critical development issue and the toughest challenge to continued growth prospects that will require the dedicated attention of policymakers and business people alike.

Implications for IFC

9. Development institutions such as IFC exist to help tackle imperfections in the functioning of markets and non–market institutions. Accordingly, they are expected to play key roles in responding to the financial crisis. Firstly, IFC can help address funding gaps that have appeared with increased frequency due to tighter credit conditions. In doing so, it is less the actual amount of financing (the private sector operations of development institutions usually account for only a small percentage of GDP), but more the signal that such financing can send to other investors, which, in turn, can enhance their confidence in investing in a certain country or sector. This effect is based primarily on the long–term orientation and the track record of an institution like IFC as a reputable investor in emerging markets.

10. Secondly, IFC can play a number of non–financial roles. At an individual project level, the Corporation can serve as an honest broker between competing interests in a financial restructuring. More broadly, IFC can offer advice that helps tackle institutional shortcomings, including policies, laws and

regulations covering the financial and corporate sectors (in partnership with the World Bank and others), as well as governance and risk management by private sector entities. Of course, action at each of these levels of course applies to basic needs infrastructure, in addition to climate change mitigation and support for environmental and social sustainability more generally – especially through transfer of knowledge about best practices and sustained capacity building measures. IFC's role in environmental and social stewardship will need to increasingly go beyond the specific performance of individual projects to cover the aggregate impacts its critical presence can bring in sectors, ranging from agribusiness to infrastructure.

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

12. With a view to informing IFC's future strategic and operational directions, including its evolving response to the crisis, this report examines IFC's effectiveness in i) financing development; and ii) providing knowledge for development. Part 1 of the report tackles the first theme, focusing on the development results achieved among IFC investment operations that matured between 2006–08, with a look back at IFC's experiences during previous crises. Part II, on the other hand, deals with the report's main theme, a first examination of the Corporation's experience with its Advisory Services (AS) interventions – knowledge services that IFC provides to either private companies or governments in support of sustainable private sector development, and which have grown tenfold since 2001. The report thereby considers, for the first time, the performance of both arms of IFC's business, i.e. Investments and AS, including situations where these instruments have been combined.

PART I: FINANCING DEVELOPMENT: THE PERFORMANCE OF IFC INVESTMENT OPERATIONS

Project development results (along with IFC financial returns) improved overall, including among most strategic sectors, between 2006 and 2008. However, performance in Africa, Asia and MENA, and in non–telecommunications IT, continued to lag.

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

Given the current global financial crisis, IFC–supported projects in early implementation are expected to be hardest hit in development terms. Such projects represent around 40 percent of IFC's outstanding portfolio (62 percent by volume), thus the downside risk to IFC's development return is substantial.

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

13. IFC's portfolio of investment operations (loans, equity, and other financial instruments) continued to expand in 2008, providing further opportunities for IFC to extend its development reach. This chapter examines the nature of this portfolio growth, and then covers three main themes: first, project development results, through a review of the performance of IFC–supported projects that reached early operating maturity between 2006 and 2008; second, a look at the impact of past crises on the performance of IFC–supported projects; and third, a discussion of implications for IFC's response to the current crisis. Table 1 summarizes the evaluative tools and main data sources that IEG used in evaluating IFC investment operations.

Evaluation Activity	Focus	Main Data Sources
Meta Analysis of IFC Investment portfolio and new business	Results (Relevance)	IFC Investment Operations database World Bank database
Meta Analysis of Secondary Data on FDI, MDB investment	Results (Relevance)	World Bank Database; MDB Annual Reports
Validations of mature IFC Investment Operations	Results (Outcomes) IFC Additionality	178 IEG EvNotes (XPSR validations), completed between 2006–08 178 IEG Additionality Reviews for IFC investments, completed between 2006–08
Risk Profiling of mature and new IFC Investment Operations	Risk–Adjusted Expected Development Outcomes	565 IEG Risk Layering Reviews, completed between 2000–2008 Institutional Investor Country Credit Risk Ratings
Project & Country *Case Examples*	Results and IFC Additionality	IEG EvNotes, Country & Sector studies

Source: Independent Evaluation Group

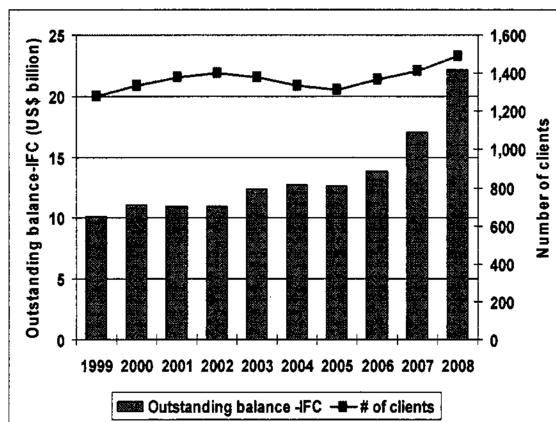
Portfolio Pattern

14. IFC's portfolio of investment operations (loans, equity, and other financial instruments) continued to grow in the last year. The cumulative volume of active, committed investments increased by around a quarter, from $32.7 billion in FY 2007 to $40 billion in FY 2008, resulting in an increase in the outstanding disbursed balance from $17 billion to $22 billion (see Figure 5). The number of projects in

the portfolio rose by a lesser order (8 percent), reflecting a general preference for larger investment operations (increasingly involving corporate finance rather than project finance) and a more wholesale approach to reaching SMEs through financial intermediaries and larger companies. Per client exposure also increased modestly, with the number of clients rising by only 5 percent.[18]

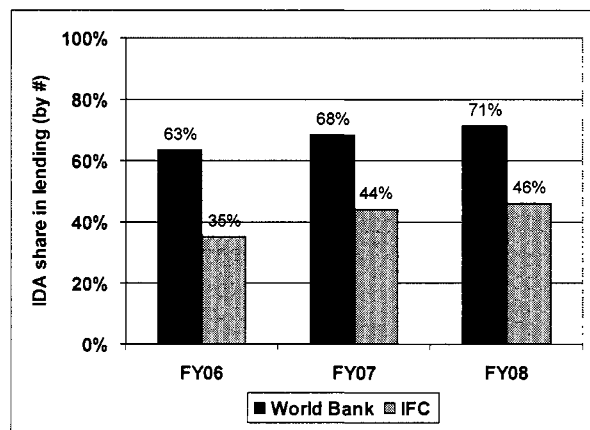
15. How strategically consistent are IFC's operations? They are expected to meet one or more of these corporate strategic priorities: focus on frontier markets (IDA countries and frontier regions of middle–income countries, as well as SMEs and agribusiness); addressing constraints to growth in infrastructure, finance, or health and education; long–term partnerships with emerging players; support for South–South investment; addressing climate change and environmental and social sustainability. Since some of these objectives are relatively new or hard to measure (e.g. climate change and sustainability), data are not yet available to assess resource allocation patterns against all of them. For those objectives with trackable data, most new commitments between 2006 and 08 featured at least one strategic priority.[19] Overall, this suggests at least a minimal level of pursuit of key strategic objectives, through individual investment operations – given that the objectives are couched in such a way that it is difficult not to achieve at least one objective. Since it became a strategic priority, allocation of investment resources to IDA countries has increased (Figure 6)[20]. The pace of growth in IFC's investments in IDA countries reflects the fact that as a minority financier, IFC needs the support of commercial co–financiers to pursue each new operation, which can be challenging in difficult market environments. Thus increasing presence in these countries will of necessity be a gradual process.

Figure 5. IFC's per client exposure has doubled in the last 10 years



Source: IFC Database (MIS)

Figure 6. IFC and World Bank IDA operations have increased over FY06–FY08



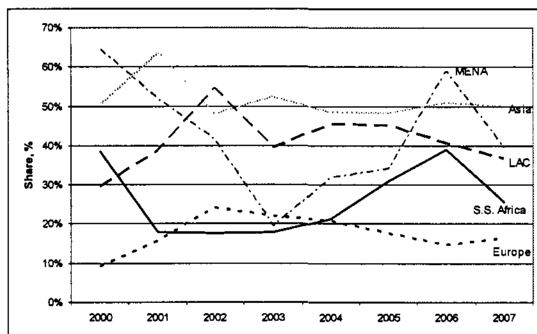
Note: Calculated as number of IDA and IDA–blend operations / total operations

Source: IFC and World Bank databases

16. The strategic priorities of IFC and the WBG broadly address key developing country needs, although it is also useful to compare patterns in IFC's investment operations with the private sector lending operations of other development institutions and patterns of FDI. This helps identify the extent to which IFC appears to be addressing needs that others are not tackling. Figure 7 shows that by region, IFC has had a greater share of MDB investments in Asia, MENA and LAC (where total MDB presence tended to be smaller, which means the field of multilateral lenders is more crowded in ECA

and SSA). Table 2, meanwhile, shows that IFC has been oriented more towards countries with lower levels of FDI/GDP. This indicates that IFC's resource allocation has generally been to developing countries that have been relatively lacking in external finance. However, in ECA, EAP and LAC especially, which account for around two–thirds of IFC's investments, IFC needs to be particularly selective in its investments, given the relatively high flows of private capital to these regions.

Figure 7. *IFC has made up a higher share of MDB finance in Asia, MENA and LAC than SSA and Europe*



Source: Annual Reports of other Multilateral Development Bank(MDB).

Table 2: IFC tended to invest in countries with lower prior levels of FDI/GDP

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

Source: Development Data Platform (DDP), Management Information System (MIS) as of June 30, 2008

Project Development Results

Overall Results

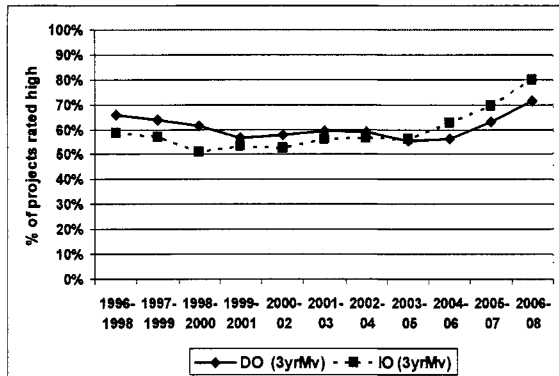
17. IEG's evaluations show that IFC–supported project development results, along with IFC financial returns, improved overall. In the three year period 2006–08[21], 72 percent of projects (85 percent by volume) achieved outcomes that, on balance, met or exceeded specified business, economic, environmental and social performance criteria, and made positive contributions to private sector development beyond the project through, for example, demonstration effects and linkages.[22] This compares with 63 percent of projects (75 percent by volume) achieving high outcomes in 2005–07 (Figure 8). On a cumulative basis, since independent evaluation started in 1996 up to and including 2008, 62 percent of projects (70 percent by volume) have achieved high development outcome ratings (Figure 9). As in the past, larger operations were more likely to meet performance benchmarks than smaller operations.

18. Stronger overall results reflected several factors: i) the exit of a particularly weak performing group of projects that matured in 2005. Fifty–one percent of projects maturing in 2005 realized high development outcomes, compared to 75 percent of projects that entered the three year cohort in 2008[23]; ii) more favorable economic conditions in much of the developing world until late 2008 (Figure 10), by which time most evaluated projects had been substantially implemented[24]; iii) improving IFC project appraisal and structuring quality (Figure 11), suggesting steps taken by IFC such as the establishment of credit training for all new investment officers in 2001 and organizational changes implemented between 2001 and 2003, including a major departmental reorganization in 2002, are starting to have traction; iv) a conscious move by IFC towards larger projects, which have been more likely to achieve high ratings than smaller projects, in part due to greater internal scrutiny; and v) especially strong performance in Europe and Central Asia (ECA) and Latin America and the Caribbean (LAC), where the

majority of mature operations are located. The upward trend is consistent, to the extent data are comparable, with the experience of ADB and EBRD.[25] Boxes 1 and 2 describe the rating dimensions that are used in project evaluations. Box 3 provides illustrations of projects with high and low development outcome ratings.

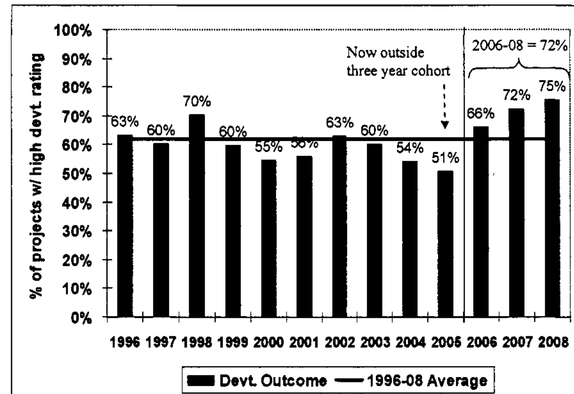
19. The year 2008 presents a complex picture. The results for the most part reflect the performance of projects that matured well before the onset of the crisis. Nevertheless, a decelerating trajectory was still discernible in the latest evaluations, with negative implications for development outcomes going forward. This is consistent with trends observed in the context of past crises.

Figure 8. Project development outcomes and IFC investment returns improved in the last three years



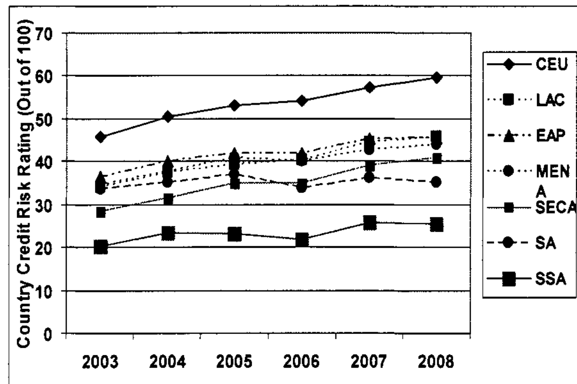
Note: Three year moving averages; 'High' = met or exceeded benchmarks
Source: Independent Evaluation Group (IEG)

Figure 9. The improvement in 2006–08 followed historically weak performance in 2004–05



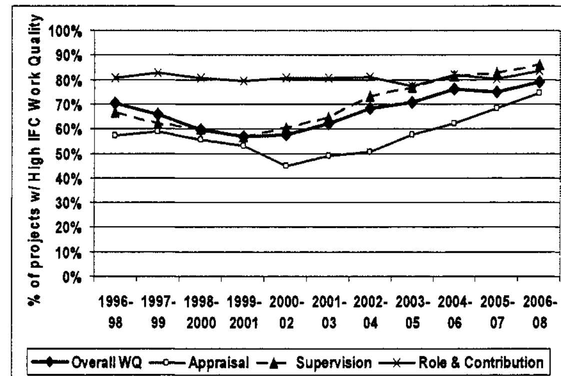
Note: Year on year averages; 'High' = met or exceeded benchmarks
Source: Independent Evaluation Group (IEG)

Figure 10. Country business climate risk improved in most regions



Note: A higher rating equates to lower risk.
Source: Institutional Investor

Figure 11. IFC Work Quality again improved



Note: 'High' work quality = Satisfactory or better work quality
Source: Independent Evaluation Group (IEG)

Box 1. How are Project Development Outcomes rated?

Project development performance ratings are assigned in the following dimensions:

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

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

Environmental and Social Effects: i) Consistency with IFC requirements; ii) Net impact, of the project or sub–projects, in terms of pollution loads, conservation of biodiversity and natural resources, and in a broader context, social, cultural, and community health aspects, as well as labor and working conditions and workers' health and safety.

Private Sector Development Impacts (beyond the project)**:** Demonstration effect in creating sustainable enterprises capable of attracting finance, increasing competition and linkages, and bringing about improvements in regulation.

These ratings are then synthesized (not averaged) into a single **Development Outcome** rating, on a six–point scale from Highly Successful to Highly Unsuccessful. The full rating criteria for each of the indicators are set out in Annex 2.

Box 2. IFC Investment Outcome Rating

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

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

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

Box 3. Illustrations of High and Low Project Development Outcomes

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

High – Infrastructure: The project was to upgrade, expand and operate an international airport in a LAC country, under a concession granted by the government following a competitive bidding process. Although the revenues were lower than projection at the approval, the project was successful in improving the airport facilities and creating nearly 100 new jobs (63 percent increase). The success of the airport has had a positive effect on business, through increases in tourism[26] and improved perception of investing in the country. The project meets its environment, health and safety, and social compliance obligations.

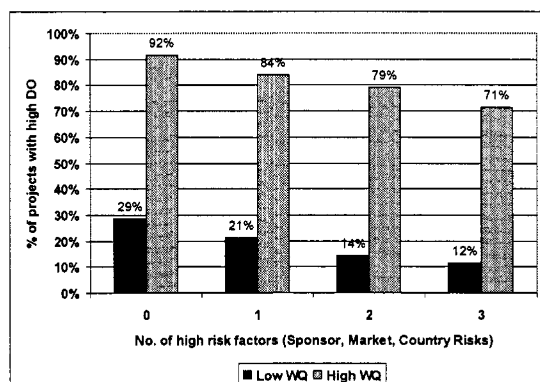
Low – General Manufacturing & Services: The project involved constructing and operating an industrial estate in the Middle East. Only one year after IFC's disbursement, the foreign sponsor suspended the project after construction delays and disputes with the local partner. In the following year, the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

20. Over a decade of evaluation and econometric testing show that project development results hinge significantly on two types of factors:

- *Factors external to IFC* – notably, changes in country business climate risk, sponsor risk (the sponsor's experience, financial capacity, commitment to the project, and governance/business reputation), and product competitiveness risk (captures the project's underlying competitiveness in the market it is operating, and any market distortions);
- *Factors internal to IFC* – the quality of IFC's work in project appraisal and structuring, project supervision, and additionality. See Box 4 for details.

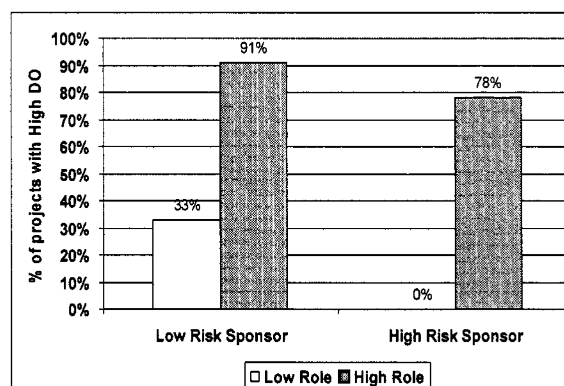
In general, external risks can be mitigated with strong work quality, although project development outcomes still tend to be lower when project risk exposure is higher (Figures 12 and 13).

Figure 12. Strong IFC Work Quality can Help Clients Overcome Risk



Note: Econometric analysis shows that each of the risks cited above can have a significant effect on project development outcomes.
Source: Independent Evaluation Group (IEG)

Figure 13. Strong Additionality is Important for Effective Risk Mitigation



Note: 'Role' = IFC's role and contribution to the project, in terms of being a catalytic agent, and making a special contribution.
Source: Independent Evaluation Group (IEG)

Box 4. Measuring IFC work quality

Project evaluations cover three aspects of IFC work quality[27]:

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

Supervision and Administration: Following approval and commitment, and through to eventual closure, this indicator assesses how well IFC carried out its supervision of an investment. For example, was IFC able to detect emerging problems in a company and respond expeditiously with appropriate and effective interventions?

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

Each project evaluation contains lessons, which most often pertain to IFC work quality.[28]

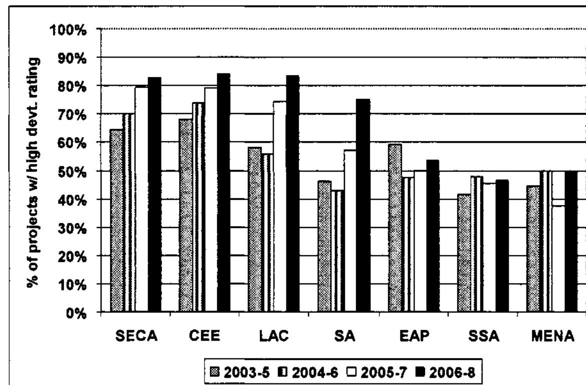
Region and Sector Results

21. IFC–supported projects in the predominantly middle–income regions of Southern Europe and Central Asia (SECA), Central and Eastern Europe (CEE), and Latin America and the Caribbean (LAC) again achieved the best development outcome ratings, followed by South Asia (SA), where development performance has significantly improved in the last three years. However, performance continued to lag in East Asia and the Pacific (EAP), and in the mainly low–income, IDA regions of Middle East and North Africa (MENA), and Sub–Saharan Africa (SSA) – with barely a half of the projects in these regions meeting or exceeding specified benchmarks and standards, although with some slight improvement (Figure 14).

22. Differences in project risk characteristics, notably a project's relative exposure to country and sponsor risk, account for some of these differences. However, the quality of IFC's work in appraising, structuring and supervising its investments has played a major role. Projects in ECA and LAC were generally carried out in better business environments, were also typically larger, with better sponsors,

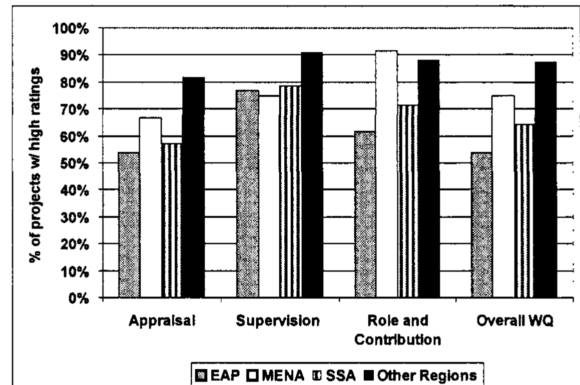
and product market competitiveness. They also exhibited strong IFC work quality. By contrast, projects in SSA, MENA and EAP featured relatively weak work quality and higher external risks than those carried out in other regions (Figures 15 and 16). Of particular concern is that over a third of operations in EAP (38 percent), and 29 percent in SSA, featured low additionality quality. In several cases in EAP, IFC's financial additionality was weak; while in SSA, client commitment to operational and institutional changes that IFC sought to bring about was a key constraint to realizing the anticipated additionality.

Figure 14. Better ratings again in ECA and LAC, lagging ratings in EAP, MENA and SSA



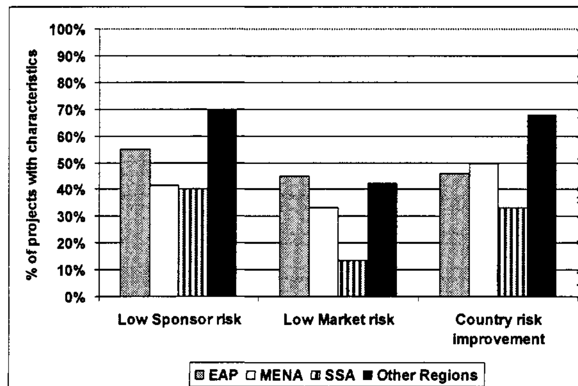
Note: Based on 2003–08 evaluations.
Source: Independent Evaluation Group (IEG)

Figure 15. IFC appraisal quality and realized additionality was much weaker in EAP and SSA



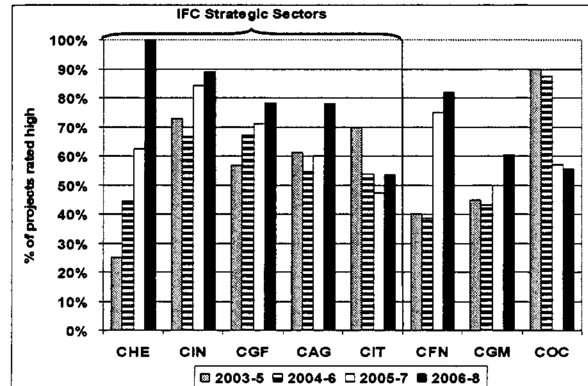
Note: Based on 2006–08 evaluations.
Source: Independent Evaluation Group (IEG)

Figure 16. External risks were highest in SSA



Note: Based on 2006–08 evaluations.
Source: Independent Evaluation Group (IEG)

Figure 17. Performance was strong in the strategic sectors (except ICT and in oil, gas, mining and chemicals),



Note: Based on 2003–08 evaluations.
Source: Independent Evaluation Group (IEG)

23. Project performance was generally strong in IFC's strategic sectors of finance, infrastructure (physical and telecommunications), agribusiness, and health and education (mainly in hospitals and terti-

ary/professional schools).[29] However, it was much weaker in non–telecommunications IT (internet and software). Eighty–six percent of telecommunications projects achieved high development outcome ratings, compared to 20 percent of internet and software projects. Across other sectors, equity funds department projects again achieved strong development outcome ratings, while oil, gas, mining and chemicals operations performance lagged (Figure 17).

24. Sector variations to some extent reflect differences in project risk exposure, but also IFC work quality and additionality. Risk exposure was a clear factor in weak non–telecommunications IT projects, most of which were small operations involving inexperienced sponsors and unclear product competitiveness. However, work quality was also well below par: high in just 40 percent of cases, compared to 91 percent for telecommunications. Strong IFC work quality was in evidence in the health sector, where IFC showed that it had learned lessons from past experience, although the portfolio has had less diversity than envisaged.[30] In oil, gas, mining and chemicals, projects did not meet benchmarks for a number of reasons: a sponsor without the necessary technical expertise; a high risk exploration venture that did not reach an operational stage, and one case of poor environmental compliance.

Factoring in Risk

25. Systematic risk–adjusted performance measures have yet to be established in the development arena, as in the world of finance.[31] Factoring in project risk exposure, and IFC work quality, IEG is developing an initial Risk Adjusted Expected Development Outcome (RAEDO) framework. This approach estimates the probability of achieving high development outcomes, taking into account project risk conditions (i.e. country, sponsor, product market and project type risks), and in the expectation of satisfactory or better IFC work quality.

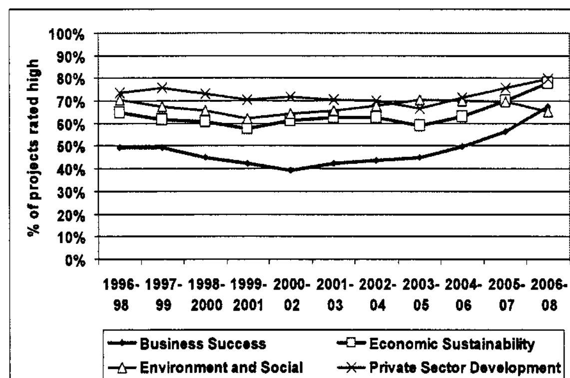
26. The RAEDO approach can provide a new perspective on project performance. Risk factors always have an impact on performance, and they are seen to be more pronounced in SSA and MENA. The effect of risk factors is, however, less variable by industries than by regions. CIT and CGF tend to have higher risk profiles than other sectors. For most departments, IFC–controllable factors tend to dominate external risk factors in terms of impact on development outcomes. The impact of internal factors, i.e. IFC work quality, is particularly pronounced in the case of EAP and CIT. It is evident that in all regions and sectors, including SSA and MENA, even if we account for risk, the potential for success is high, but it is not achieved largely because of shortcomings in work quality. It is worth noting that the current M&E system is designed to measure the level of effectiveness of the institution at the project and aggregate levels, but does not offer a single measure of *the comparative magnitude* of development impacts across projects. Therefore, since the RAEDO approach is also based on projects' development success rates, it still cannot not capture the differences that may exist with respect to these magnitudes This is an interesting but complex area for future work. Annex 4 contains further discussion of these preliminary results.

Environmental and Social Performance

27. Most project development indicators improved, but environmental and social effects ratings show a slight decline (Figure 18). As Figure 19 shows, this was due to relatively low number (49 percent) of FI operations evaluated between 2006 and 2008 achieving high environmental and social ratings. Real sector operations, on the other hand, achieved much higher environmental and social effects rating (71 percent). Low performance was most apparent among FI projects in SSA, mainly related to weak FI

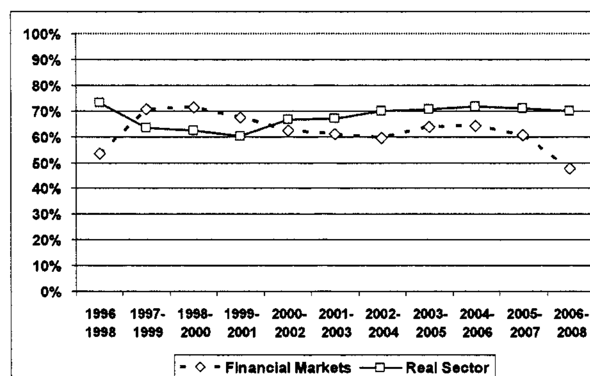
environmental and social commitment and management capacity, and poor reporting of the environmental and social effects of sub–projects. Weak regulatory frameworks also contributed to low results.

Figure 18. Environmental and social effects performance weakened in 2008



Note: Chart shows three year moving averages
Source: Independent Evaluation Group (IEG)

Figure 19. Environmental and social effects performance has declined sharply for FI Operations



Note: Chart shows three year moving averages
Source: Independent Evaluation Group (IEG)

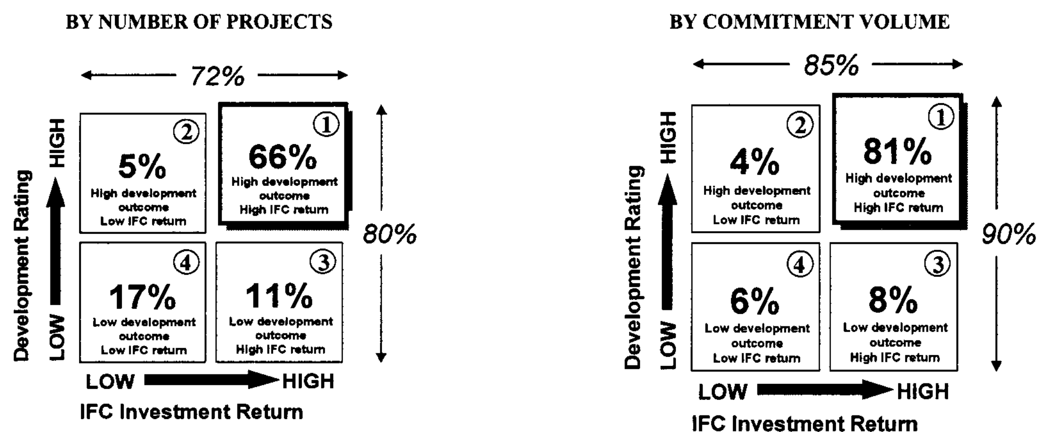
28. IFC's environmental and social supervision quality of FI projects has improved, from a low of 47 percent in 2006 to 62 percent in 2008. At the same time, IFC's role and contribution in building client commitment, skills and capacity has not improved, and remains low for FIs (56 percent in 2008), compared with the real sector (83 percent).[32] This level of performance is far from optimal and has been an important factor in low FI environmental and social effects ratings. This is because FI E&S performance can be largely attributed to the extent of client commitment and capacity. Some efforts to build FI capacity in partnership with local banks and training organizations have been encouraging, for example in China, however such efforts have been much less successful in other parts of the world, particularly Africa.

29. IFC has increased the number of FI environmental specialists since 2004 – from one to four full time specialists (three in the field), and two part–time consultants. They are collectively tasked with improving FI supervision and client capacity building. However, during this period the FI committed portfolio grew sevenfold, from $1.7 billion to $12.3 billion, and the number of projects doubled. IFC's FI E&S management capacity and approach has not kept pace with the increase. Relatedly, the internal communication links between IFC's E&S specialists, investment officers and the client's environmental staff could be further strengthened to ensure timely client follow–up. A process has been initiated for joint quarterly portfolio review meetings between CES and CGF for client follow up. It is notable that following earlier IEG feedback, IFC has recently selectively started visiting FI's subprojects during supervision missions – as a means to validate the FI's reported E&S performance but also train the FI's staff in conducting appraisals and monitoring E&S effects. Meanwhile, IFC's ESAT on–line training program for E&S appraisal and monitoring has remained under development for several years.

Relationship between Project Development Outcomes and IFC Profitability

30. As in previous years, IEG found a strong connection between project development outcome and IFC profitability. Combined high/high outcomes (high development outcome and high IFC investment return) were achieved in 66 percent of projects (81 percent by volume), while 17 percent of projects (6 percent by volume) achieved low/low outcomes – see Figure 20. There was a difference between project development outcomes and IFC investment performance in only 16 percent of projects. In most of these cases (11 percent), IFC still achieved an acceptable investment return, reflective of IFC's ranking claim on company cash flow for loan service as well as the collateral security package (most of these operations were loans), which together provided some downside protection.[33] Annex 3 provides further details on the characteristics of different result combinations.

Figure 20. Project Development Outcomes and IFC profitability were strongly correlated (2006–2008)

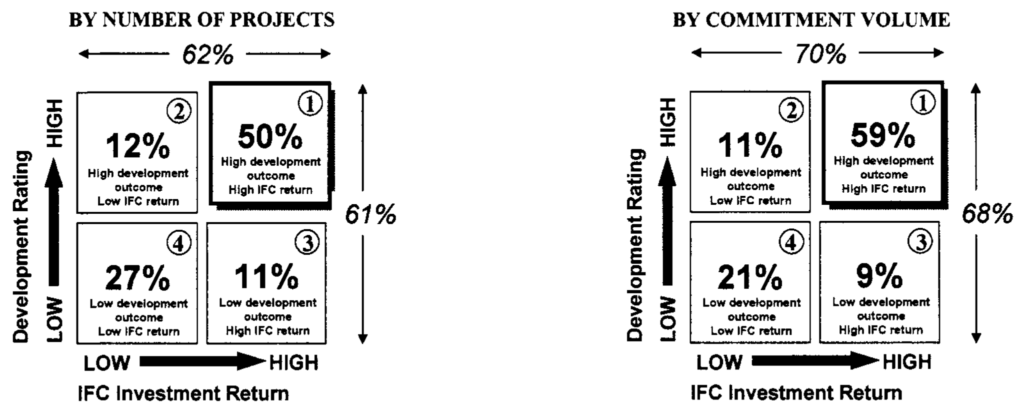


Note: Based on 2006–08 evaluations
Source: Independent Evaluation Group (IEG)

Note: Based on 2006–08 evaluations. Volume is by IFC investment size
Source: Independent Evaluation Group (IEG)

31. The share of operations in the high/high quadrant has increased substantially in the last few years, from 47 percent in 2003–05 to 66 percent in 2006–08 (or from 59 percent to 81 percent by volume). The conducive nature of the business environments in many developing countries, up to late 2008, as well as clear improvements in IFC work quality (in appraisal and structuring), have been key factors in increasing the share of operations in the high/high quadrant. The exit of a low–performing year, 2005, also had a significant effect. Again, larger operations, typically with stronger sponsors and exhibiting better IFC work quality, were more likely to achieve high/high outcomes. The relationship between project size and performance can also be seen over the longer term, with performance by volume of commitments better than performance by number of operations (see Figure 21).

Figure 21. On a cumulative basis (1996–2008), high/high outcomes were achieved around half the time



Note: Based on 1996–08 evaluations
Source: Independent Evaluation Group (IEG)

Note: Based on 1996–08 evaluations. Volume is by IFC investment size
Source: Independent Evaluation Group (IEG)

Impact and Implications of the Global Financial Crisis

Performance during past crises

32. Given the current global financial crisis, it is important to examine IFC's experiences in past crises. Evaluations of projects affected by 27 crises in the last 15 years show a common characteristic: particularly low development outcomes for projects in implementation at the time of the crisis – with less than half achieving high ratings. Operations that were maturing, or were approved post crisis, fared much better. Box 5 and Figure 22 illustrate these patterns in a general sense, while Table 3 shows the severe effects of crisis on project performance in a single country: Argentina.

Box 5. Projects under implementation in the downturn are most vulnerable to the crisis

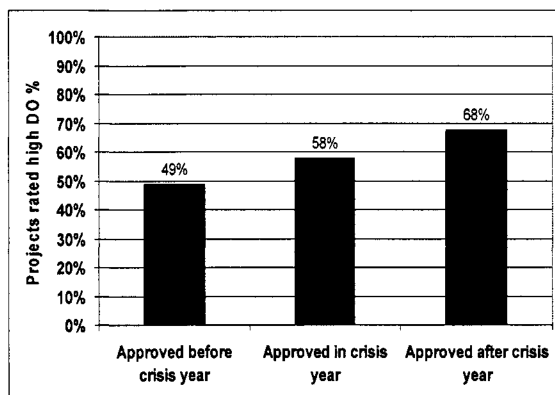
The crisis is expected to have very different effects, depending on the stage of the project in its lifecycle:

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

Projects approved just prior to the crisis (in implementation during the downturn): Not operational when the crisis hit; the project financing plan was typically based on a boom period market condition as the starting point, and the crisis may erode justifications for business expansion, while financial losses of sponsor business/es may weaken the sponsor's ability to carry out further expansion. Sponsors may need to reconsider investment plans and may shift their emphasis toward restructuring/reorganization, rather than expansion (or even consider project termination), with consequent effects on development outcomes.

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

Figure 22. Best results when IFC investments have been made in the wake of a crisis



Source: Independent Evaluation Group (IEG)

Table 3: In Argentina, performance fell dramatically as the business environment deteriorated

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

Note: Country Credit Risk Rating is measured out of 100, with lower ratings equating to higher country risk.
Source: Independent Evaluation Group (IEG) and Institutional Investor

33. These findings reflect several factors: (i) IFC operations approved before a crisis, like other private sector activities, were not immune to the sharp deterioration in the investment climate caused by the crisis.[34] Clients tend to approach IFC to increase their output capacity when economic conditions are buoyant and prices are high in the market cycle. However, by the time the projects come on stream, the market has often peaked and prices are in the down–cycle. Recently committed and disbursed projects thus tend to suffer most; ii) the better results of post–crisis projects are consistent with the finding that improvement in the business environment (represented by beneficial changes in country credit ratings between approval and evaluation) was a significant determinant of better development outcomes[35]; and (iii) given that IFC's additionality, particularly financial additionality, should be stronger following a crisis, the finding supports the thesis that higher IFC additionality is associated with better development results.

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

35. The size of the effect depends on the visibility—investments in large key flagship companies of systemic importance for a country such as banks, manufacturing, or infrastructure companies are likely to send a strong signal. The timing of the intervention is also important—announcement at the peak of market uncertainty can have profound effects, as in South Korea during the Asia crisis, where IFC investment increased dramatically, after a period of low involvement. Another example of IFC's catalytic role can be found with respect to Turkey. In addition to restructuring major companies, IFC mo-

bilized $100 million of its own and commercial banks funds in the wake of a major financial crisis, which was an important signal to the markets during the recovery of the financial crisis. However, difficult or badly–implemented restructuring of IFC's own problem projects has negatively affected the ability to play a signaling role. Some of the difficult restructuring cases absorbed significant IFC resources, attracted negative publicity, and inhibited IFC's ability to be more effective during the crisis (Thailand, 1997).

36. In past crises, services demanded by the private sector included: balance sheet restructuring instead of financing new productive assets, corporate instead of project financing, short–term liquidity and trade finance instead of medium– and long–term financing, local currency instead of dollar financing. Given IFC's historic focus on project financing, its response to these needs was often slow and inadequate. The case of trade finance illustrates the point. From fiscal 1998 to 2003, IFC committed 21 trade finance facilities amounting to $542 million. Of them, 11 were never used, and of the 10 that were used, the average utilization rate was just 27 percent. Over time, motivated initially by the need to respond to crisis, IFC built up the capacity to provide these services. Corporate finance now dominates IFC's business. Within a short period of time, the Global Trade Finance Program has become a significant part of IFC's business. Some capabilities have been developed for local currency finance, but IFC's capacity in this area is still weak relative to private sector demand. IFC has also increased significantly its field presence.

37. Crises have also expanded demand for IFC's AS – for instance, to improve corporate transparency by enhancing reporting according to international accounting standards, promote better corporate governance practices, enhance risk management practices in financial institutions, help build financial infrastructure including credit rating agencies and credit bureaus, and enhance regulatory capacity relating to new financial instruments and institutions. These activities grew initially in response to structural weaknesses made apparent by crisis (particularly during the Asian crisis) and have become an important part of IFC's AS operations. Some of IFC's post–crisis interventions combined investments and AS, and these experiences are discussed in Part II of this report.

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

- The nature and timing of investments;
- Opportunities and constraints for bigger impact;
- IFC's own internal practices, notably arrangements for organizing and conducting its work; and
- Good IFC–Bank collaboration.

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

40. *Opportunities and Constraints for Bigger Impact.* Crises can present opportunities to reach new clients and to be rewarded for risk–taking. Often, however, such opportunities are missed owing to the diversion of staff attention and effort to restructuring extant projects, thereby undermining IFC's abil-

ity to function as a counter–cyclical financier. For, example, in Argentina, Indonesia and Thailand, IFC restructured investments and injected liquidity. However, difficulties in restructuring absorbed significant resources, and negatively affected IFC's ability to play a counter–cyclical role. Separating work–out and new–business teams may help, in facilitating collaboration among Bank and IMF teams.

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

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

43. *IFC's Internal Practices.* In many cases, the effectiveness of response depends on it being preceded by a progressive sequence of steps to adapt to the outbreak and spread of crisis. Timeliness, size and relevance to country and business needs were distinctly better when IFC had (i) recognized signs of deterioration in economic conditions, (ii) adapted country strategies to changing circumstances, (iii) adjusted investment approaches by becoming more selective and worked—including through advisory services—with companies less vulnerable to currency fluctuations or with familiar sponsors, and (iv) taken measures to alleviate exposure constraints (Brazil, 2002; Turkey, 2001). Conversely, IFC's effectiveness during a crisis was impaired when it had not adjusted the project mix to economic deterioration (Argentina, 2001).

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

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

46. Given the inherent difficulties in forecasting crises, good quality of work contributes to the resilience of projects. For instance, there were significant differences in quality among projects in Argentina that broadly mirrored differences in ratings of IFC's upstream preparation activity among these

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

47. Finally, when managed well, *IFC collaboration with the Bank* helps results. Such collaboration with has enhanced the effectiveness of IFC's interventions by supporting private sector responses to policy measures (Korea). World Bank advice and other interventions have on occasion been informed by IFC's knowledge of the corporate and financial sectors in a crisis–affected country. IFC's signaling role can be an important complement to public sector interventions. At the same time, the Corporation's role as creditor and shareholder in key financial institutions or corporations can be a powerful tool in corporate and industry restructuring.

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

Implications for the current global financial crisis

49. In the first instance, given rapid commitment growth in recent years, IFC is exposed to a large downside development and investment risk. Operations that are most likely to fail to achieve development and financial benchmarks – those in early operating maturity – currently make up 40 percent of IFC's active portfolio of operations (62 percent by volume).[36]

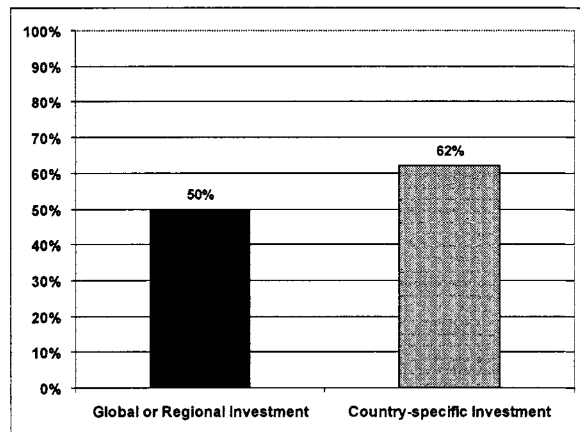
50. Careful stewardship of the portfolio will clearly be paramount, both from a development as well as a financial perspective, as well as seizing new investment opportunities. Factoring in the lessons set out above from past crises, for example in effective restructuring and working in collaboration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

51. IFC's crisis response, which is part of a broader WBG response, is still evolving. It contains a mixture of portfolio management and short–term capital injections: supporting the portfolio of existing clients; a broadening of the trade finance program to $18 billion, including guarantees that would cover the payment risk in trade transactions with local banks in emerging markets; a bank recapitalization fund (a global equity and subordinated debt fund managed by IFC, with a minimum endowment of $5 billion, which aims to help recapitalize banks in smaller emerging markets); distressed asset management, with a first stage worth around $500 million; an infrastructure crisis facility, a joint loan financing trust, equity facility, and advisory facility, to which IFC is initially providing $300 million, aimed at stabilizing existing, viable infrastructure projects facing temporary liquidity problems due to limited private participation, and enabling some continuation of new project development in private infrastructure; a microfinance liquidity facility of $500 million (in cooperation with KfW and FMO); and an objective to continue efforts aimed at climate change mitigation. For the first time, IFC's re-

sponse integrates investment operations and advisory services, for examples in using advisory services to build company workout skills. Challenges in implementing this response include: lower than anticipated funds mobilization from third parties; complex structures (bank recapitalization fund as a wholly owned subsidiary); and adaptation to specific country circumstances and needs.

52. Looking beyond the immediate term, if the crisis is longer and deeper than expected, IFC may need to take certain contingency measures to tackle risks to sustainable economic, social and environmental development. Such measures might include pro–poor interventions and new global or regional development platforms. In the past, global and regional investments have tended to achieve weaker development outcomes than single country investments (Figure 23). This implies that any such efforts may need to be reshaped, and emphasizes the importance of factoring in lessons from experience. Table 4 provides a summary of lessons from such past global and regional investments.

Figure 23. Global and regional investments have tended to perform less well than single country investments



Source: Independent Evaluation Group (IEG)

Table 4: Selected Lessons from regional and global investments

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

Source: Project Evaluations

53. Finally, IFC does not at present systematically assess risks to development, as it does financial risks. This might include the risks to achievement of SME development, climate change, and rural poverty reduction goals. While there is a close association between financial and development 'returns', it is not sufficient to assume that the latter will be ensured only through attention to the former. This applies not just to the project level, which IFC's Development Outcome Tracking System partly addresses in monitoring changes in project development expectations, but also to the sector, country and region levels. Tracking development risks more systematically, and undertaking some sensitivity testing through scenario development, may help guide future resource allocation so that it enhances IFC's development impact.

PART II: KNOWLEDGE FOR DEVELOPMENT: THE PERFORMANCE OF IFC ADVISORY SERVICES

IFC Advisory Services (AS) have been growing rapidly – tenfold in the last seven years – and AS teams dominate IFC's presence on the ground. This raises key strategic questions, including resource balance and possible quality trade–offs.

IFC has taken steps to improve the organizational alignment of its AS, but more needs to be done to improve internal focus and accountability, and better complement the efforts of others.

Delivery quality reflects client commitment, effective project design and implementation, M&E quality, and collaboration with others. IFC's delivery approach appears to compare well with that of other development institutions, but is far from optimal.

Available results data suggest better performance in SECA, weaker performance in LAC (prior to a recent reorganization) and for global projects; and strong associations between country conditions, client commitment, the degree to which AS is programmatic, IFC delivery quality, and results.

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

54. This is the first global assessment of IFC Advisory Services (AS), thus we have adopted a broad, holistic approach to the subject. The chapter begins with a discussion of the connections between knowledge and private sector development. It then traces the growth of IFC AS, and its strategic implications (for IFC and the World Bank Group more generally), followed by an examination of three themes: first, the organizational alignment of AS; second, the delivery of AS; and finally, the results and additionality of IFC in these operations. In line with good evaluation practice, we triangulate evidence using multiple sources where possible (Table 5).

Knowledge, Development and the Private Sector

55. The accumulation and effective deployment of financial and physical resources are indispensable conditions for development. But they are not sufficient. Advances in knowledge and technology are fundamental components of almost any country's growth story – from the Industrial Revolution in the nineteenth century in today's developed economies to the economic success stories of the likes of South Korea, India, and the Baltic States in the last 20 to 30 years.[37] This is primarily due to the beneficial effects of knowledge and technology progress on productivity.[38] Conversely, those countries that have failed to make advances in these areas, particularly in Africa, have typically fallen behind.

56. The public sector is the main provider of the knowledge infrastructure in many countries – notably through investments in education and major research and development programs, but also in protecting intellectual property rights and providing communication arteries through which knowledge can travel. However, it is the private sector that translates this knowledge into productivity, profits, and job creation (thereby contributing to poverty reduction), through innovation and investment.[39] At the same time, for sustainable long run results, as the current global financial crisis has highlighted, appropriate standards, regulation and governance surrounding private enterprise are also required.

57. In this context, development institutions such as the World Bank Group have key roles to play – notably, in promoting improvements in standards, regulation and governance of private sector enterprise, and in facilitating knowledge advances that contribute to sustainable private sector development in the developing world.[40] As important as tangible changes in regulation and governance, are the less tangible shifts in attitudes and behaviors that can help underpin effective business practices.

58. In facilitating beneficial change through knowledge transfer, experience suggests several factors that could affect the chances of success: i) the absorptive capacity of the recipient and the capacity gap between provider and recipient. The bigger the capacity gap, the more difficult the transfer; ii) the level of overall development of the host country. The bigger the development gap between the source and the recipient country, typically the more difficult the transfer; iii) the level of commitment of both supplier and recipient. The greater the provider's stake in the process, involvement over time, and the level of supporting assistance, the greater the value (but also the cost) to the recipient. There is no substitute for the active role of the recipient in absorbing the knowledge and the information; iv) complementarity with other relationships between the provider and the recipient. If the exchange of knowledge and know–how is supported by exchange of other services, the effectiveness of the transfer is likely to be higher; v) Complexity of the knowledge being transferred. The more codified and explicit the knowledge is, the easier (and less costly) its transfer.[41] The recent IEG evaluation of the effectiveness of World Bank Economic and Sector Work and Technical Assistance confirmed some of these factors empirically, notably the absorptive capacity of recipient governments (ESW and TA was less effective where government capacity was lower); commitment of the provider (WB), in terms of resource allocation to IDA countries, and in maintaining a strong country knowledge base, as well as recipient, i.e., developing country government, buy–in.[42]

Table 5: Methodologies Employed by IEG to Evaluate IFC AS

Evaluation Activity	Focus	Main Data Sources
Literature review on knowledge and private sector development	Context / Concept	Various
Meta Analysis of IFC AS portfolio, staffing, and new business	Evolution and Relevance / Additionality	IFC AS database World Bank development database
Meta Analysis of IFC and WBG strategies	Strategic Alignment	Annual corporate and business line strategies Facility strategies 33 Country Assistance Strategies, completed between 2007–08
Meta Analysis of AS project approval documents	Strategic Alignment / Additionality	248 AS approval documents, for projects approved between 2006–08[43]
Structured Interviews with IFC clients, donors, other MDBs, etc. in 7 regions	Delivery, Results and Additionality	c. 150 Interviews
Interviews with IFC AS managers & staff, in the regions and HQ	Alignment and Delivery	c. 150 Interviews
Survey of IFC and WB managers & staff	Alignment and Delivery	1025 Survey Responses[44]
Meta Analysis of external reviews of AS (incl. impact evaluations)	Delivery, Results and Additionality	51 External Program, Product and Project Reviews
Validations/Quality Reviews of completed AS operations	Results and Additionality	458 IEG Project Completion Report (PCR) Reviews[45]
Project & Country *Case Examples*	Results and Additionality	IEG PCR evaluations & Country studies
High–Level Comparison of IFC AS activities, processes and results of other providers of knowledge services	Delivery, Results and Additionality	Interviews with 8 development institutions Document and data review (incl. annual corporate, and independent evaluation, reports)

Source: Independent Evaluation Group (IEG)

Growth of IFC AS and Strategic Considerations

59. IFC's role as a knowledge provider emerged on a relatively small scale, with the support of donors, in the 1980s. At that time, IFC's advisory activities had two main objectives: first, to improve the enabling environment for private investment; and second, to build the capacity of small– and medium–size enterprises (SMEs). The main delivery vehicles for these services were, respectively, the Foreign Investment AS (FIAS), and the regional SME development facilities, the Africa Project Development Facility (APDF), the Africa Management Services Company (AMSCO), and the Caribbean Project Development Facility. See Annex 5 for more details on the early development of IFC AS.

60. IFC AS have grown rapidly since 2001. AS expenditures increased tenfold, from $24 million in 2001 to $245 million in 2008. Meanwhile, staffing has risen sevenfold over the same period, from 168 to 1,262 (or 36 percent of all IFC staff). As of June 2008, IFC was managing a portfolio of 839 AS projects, with a total approved value of $908 million (Figure 24). These data do not include certain advice that is embedded in IFC investment operations, for instance ad–hoc assistance with financial structuring, company strategy and new business development. So in effect the extent of IFC's efforts to provide knowledge to clients is even greater than the AS numbers alone suggest. Based on published data, it is estimated that IFC's share of MDB AS to the private sector is around a quarter.[46] This share appears relatively stable, as other MDBs have also increased their AS operations – generally reflective of a growing need for this kind of knowledge as the private sector has taken on a greater role in development, and greater availability of donor funding for PSD–related assistance to developing countries. The fact that most IFC AS and that of other MDBs are provided free of charge (at best subsidized) has also fuelled this growth, since a free good always has excess demand.

61. Recent IFC corporate strategies have indicated three main objectives for IFC AS: first, to improve the overall enabling environment for private investment, particularly where investment opportunities are limited; second, to integrate AS with investment services (IS), as a means to improve IFC additionality and development impact; and third, to pursue objectives common with those for IFC investments, such as focusing on frontier markets (including IDA countries and frontier regions of non–IDA countries, as well as SMEs and agribusiness), the strategic sectors of finance, infrastructure, health and education, and support for environmental and social sustainability (including climate change mitigation in middle–income countries and fast–growing IDA–blend countries such as India).[47]

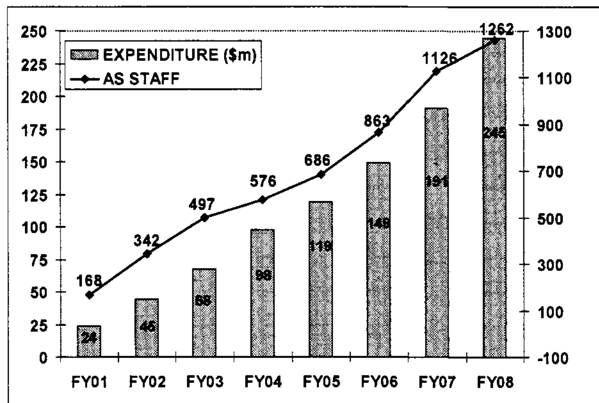
62. Just over three–quarters of IFC's 1,262 AS staff are based in field offices, typically in one of 18 regional facilities. This compares with a roughly 1:2 split of IS staff between field offices and headquarters (Figure 25). Accordingly, there are more AS staff than IS staff on the ground in developing countries. By region, the 18 facilities are distributed as follows:

- Central and Eastern Europe (CEE) – Private Enterprise Partnership (PEP)
- East Asia and the Pacific (EAP) – PEP–China; Mekong Project Development Facility; PEP–Pacific; PEP–Philippines; Program for Eastern Indonesia SME Assistance;
- Latin America and the Caribbean (LAC) – LAC Program
- Middle East and North Africa (MENA) – PEP–MENA; Iraq Small Business Facility
- South Asia (SA) – South Asia Enterprise Development Facility (SEDF); SME Development Program; SEDF – Sri Lanka and Maldives (SLDF); Bangladesh Investment Climate Facility; South Asia Infrastructure Facility
- Southern Europe and Central Asia (SECA) – PEP–SE; PEP–SEI – Balkan Infrastructure Facility

- Sub–Saharan Africa (SSA) – PEP–Africa; Mozambique SME Initiative; SME Solutions Centers

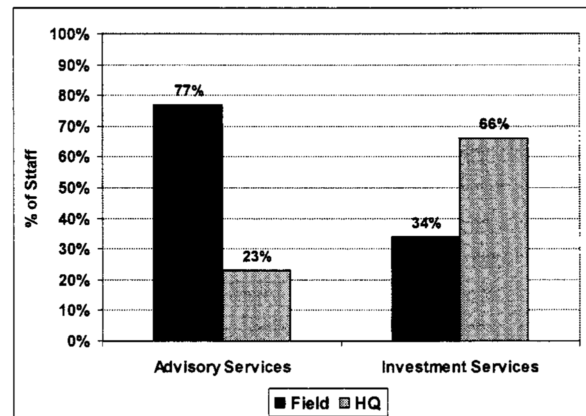
The remainder of AS staff work in headquarters, in Washington DC, either in the AS Vice Presidency Unit (established in early 2008) – in portfolio management, results measurement, training, or partnerships management – or work for one of 13 global business units such as the Foreign Investment AS and the Global Environment Facility, some of whom have staff in the field.

Figure 24. Rapid growth in AS operations and AS staff



Note: Includes FIAS activities, which are partly funded by the World Bank and MIGA (IFC is the main funds provider and manager).[48]
Source: IFC Human Resources; DFO quarterly AS financial reports.

Figure 25. 77 percent of AS staff are based in the field (a much higher share than IS)



Note: Includes all AS and IS staff (analyst and above), as of end FY08.
Source: IFC Human Resources

63. IFC uses a considerable number of external, short–term consultants to deliver its AS; as many consultants as staff. In FY08, the cost for employing those consultants (some 1,332) was $72.3 million, only slightly less than IFC staff costs (1,262 staff, at $82.7 million). This is a pattern consistent with previous years, and reflects a much greater tendency to use consultants than for IS (where staff outnumber consultants by around 2:1).[49] Consultants can of course bring skills and knowledge that the in–house staff do not have, but putting aside judgment on the ratio between staff and short–term consultants, such substantial use of consultants on short–term contracts does raise service continuity and quality challenges – both in meeting client needs, and with regard to IFC additionality and knowledge retention (where the same consultants are not reemployed by IFC).

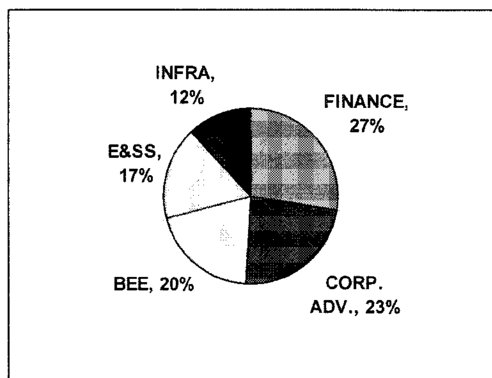
64. Knowledge management is a significant challenge with such a wide dispersion of staff across the world, and given that 60 percent of AS staff have been with IFC less than three years. Management is increasing efforts to capturing knowledge and sharing it globally across the AS program. Some good practices are emerging such as SmartLessons, BEENet, and 'Deep Dive' training sessions. Special efforts to retain and spread knowledge may include: field–based training, practice groups, exchange and codification of tacit knowledge, creation and maintenance of relevant databases, and possibly a dedicated global research department/centre of excellence to complete the knowledge value chain. Recognized leaders in this sense include the McKinsey Global Institute and the Harvard Business Review.[50] Mechanisms of this kind, some of which IFC is pursuing, such as M&E network, conferences, are fundamental if IFC is to consider global knowledge as one of its comparative advantages.

65. Since early 2006, AS operations have been arranged into five business lines[51]:

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

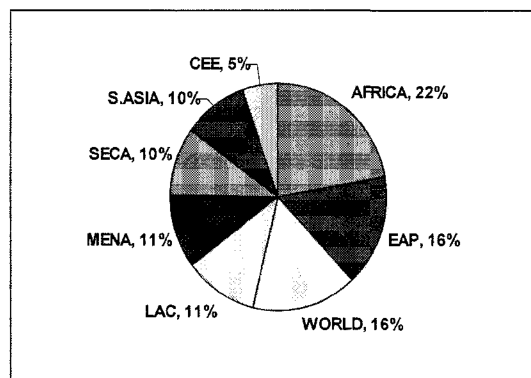
66. BEE and SME–directed activities – provided mainly through the A2F and CA business lines – remain key elements of IFC's advisory offerings, collectively accounting for around 70 percent of operations (Figure 26). By region, SSA remains the main locus of IFC advisory activity, followed by East Asia and Pacific (EAP) (Figure 27). A2F is the lead business line in four regions (SSA, MENA, CEE and EAP), CA in two regions (SECA and SA), while ESS is the most active business line in Latin America and the Caribbean (LAC). The top five countries, by outstanding portfolio value, are: China; Russian Federation; Indonesia; Ukraine; and Bangladesh.

Figure 26. A2F is the largest business line



Note: By number of operations, as at June 2008.
Source: IFC TAAS database

Figure 27. The highest share of operations is in SSA



Note: By number of operations, as at June 2008.
Source: IFC TAAS database

67. What does a typical AS project look like? Projects completed since 2005 have taken an average of 18 months to complete, although INF operations have tended to be shorter (14 months) and ESS and multi–region operations significantly longer (25 and 27 months). Average project size has been around $350,000, although INF, multi–region and ESS operations have tended to be larger (average between $400,000 and $600,000) and BEE operations smaller (average of $220,000). Project outputs include: diagnostic reports, feasibility studies, surveys, transaction designs, draft legal and financial frameworks, advice on institutional development and capacity building, best practice guidance, training, and one–off events such as conferences, workshops and seminars. Project duration is generally related to the complexity of the output with, for example, more codified diagnostic reports such as those related to WBG Doing Business indicators generally taking less time to complete than broader institu-

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

68. IFC works with five main client groups: governments; financial and non–financial intermediaries; SMEs and large enterprises. Of these, governments are the single largest client group, involved in nearly a half of AS operations (Table 6). Strong strategic coordination and operational collaboration with the World Bank and other donors is therefore important, particularly where recipient government capacity is weak and for BEE and INF work, where government clients predominate (Table 7). This issue is elaborated in the following sections.

Table 6: IFC's main AS client is government

Client	Share of AS operations	Share of AS expenditures
Government	43%	52%
Financial Intermediaries	35%	49%
SMEs	33%	38%
Non–Financial Intermediaries	33%	31%
Large Enterprises	21%	26%

Note: Portfolio as at June 2008. A single project may have multiple clients; Around one–fifth of government directed AS is accounted for by FIAS.
Source: IFC Advisory Services Portfolio Management

Table 7: Government clients predominate for BEE and INF work

Business Line	Main Client	Share of BL expenditures, Main Client
A2F	FIs	83%
BEE	Government	89%
CA	Large Companies	37%
ESS	Other intermediary / SMEs	43% / 41%
INF	Government	74%

Note: Portfolio data, as at June 2008. Population of 839 operations.
Source: IFC Advisory Services Portfolio Management.

69. The rapid, largely unchecked growth of AS raises a number of key strategic questions for IFC. First, in changing the nature and face of the Corporation, has IFC struck the appropriate balance between its traditional core business – investments – and its new business of Advisory Services? Knowledge delivery is inherently more labor intensive than providing financial services, which makes direct comparisons between the two businesses difficult. However, a clear understanding of how the two businesses relate to one another in enhancing development effectiveness across different contexts is paramount. The broader issue of Bank Group resource use for maximum impact, particularly at the country level, also needs to be addressed.

70. Second, while IFC has latterly sought to bring some structure to the growth of AS, for example through the creation of business lines, these changes will take time to bed in. This would seem to imply a focus on consolidation rather than further growth. Evaluation shows that during periods of major organizational change in IFC investment services, IFC work quality has suffered.[52] Tensions between growth, change, and quality are common among organizations, and will need to be managed carefully. Of related import is the need to establish effective quality baselines, through sound Monitoring and Evaluation (M&E).

71. Third, the increased availability of free (or subsidized) AS in support of private sector development – from IFC and other development institutions – makes it impossible to assess true client demand, and

can be market distorting. Free or subsidized AS is likely to have excess demand, and does not screen out clients that do not really need them, and/or are not committed to effective implementation of the AS, as would be the case with market pricing. It also does not send a signal as to whether a service is valued relative to another service (i.e. whether it is additional). Such sub–market pricing also has consequences for existing commercial providers of AS, or possible new entrants to the market.

Organizational Alignment of AS

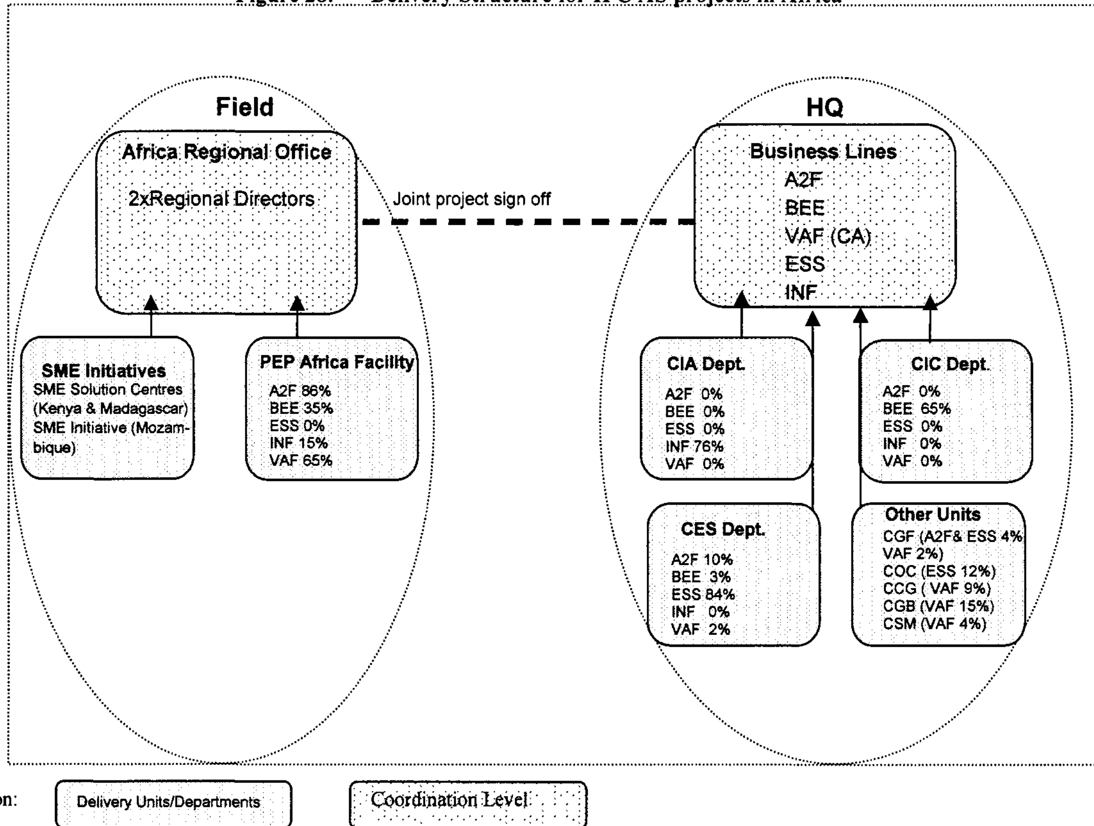
Internal Alignment

72. The structure of IFC AS, from direction to delivery, is a matrix that has three essential components: i) the AS vice presidency (VP), established in 2008; ii) business lines (BL); and iii) regional facilities and global business units such as FIAS.[53] The VP is charged with providing global oversight and direction/control of AS. The BLs, meanwhile, through global BL Leaders (and regional BL heads), are tasked with leading BL and product strategy development, providing technical direction and quality control over products and projects, overseeing knowledge management, and managing central funding allocation activities. Finally, the regional facilities and global business units are expected to develop delivery strategies and manage regional funding allocation activities, and execute AS projects on the ground, in line with BL priorities and in alignment with regional and country needs.

73. The strategy process varies, depending on whether it applies to a business line, global business unit, or to an AS facility – which presents some alignment challenges. The strategy for each business line and global business unit is revisited and updated annually by IFC, as part of the corporate strategy review, while strategies for each of the facilities are usually approved at the time of donor and IFC funding renewal, which is typically every five years. Since facilities were created at different times, they tend not to have coterminous strategies. Since there are 18 such facilities, the potential is high for inconsistent, or superseded approaches (or, alternatively, strategic adaptations that do not align with original commitments to donors). There is also, at present, no overarching strategy for AS, beyond the key principles outlined above – which could help weave these various approaches together. The survey of, and interviews with, IFC staff reveal some frustration with low interaction among facilities (and across business lines), as well as change fatigue. A global AS strategy may help tackle some of this unease by bringing greater clarity to the overall direction AS is heading in, and identifying and fostering greater synergies among facilities and across business lines.

74. In principle, for each AS operation, there is a dual reporting structure – to AS Business Line Leaders and to Regional Directors, the latter of whom are responsible for both AS and Investments in a region. In practice, however, organizational reporting lines and accountabilities can be complicated. This is largely because of the donor–influenced, 'ground up' nature of the evolution of IFC AS, which has left a legacy of numerous facilities in many regions – as referred to above (also see Annex 6). Staff can find themselves seeking internal approval to proceed with a project from many sources: the general manager/manager of a facility, a regional director, a business line head (potentially both in the region and in headquarters), and a global business unit head.[54] Feedback from IFC managers and staff is that these overlapping organizational structures can be substantially improved upon. IFC management has recognized these alignment challenges and has begun taking steps to consolidate coordination in the field. In the LAC region, there has been a move towards joint ventures with FIAS and CIA, whereby the portfolio in the region is managed by a regional/joint appointment. However, overlapping and parallel structures still persist, notably in SSA, EAP, and SA. Figure 28 illustrates the structures that exist for projects delivered in SSA.

Figure 28. Delivery Structure for IFC AS projects in Africa



→ Coordination Lines.
The percentages are based on the number of projects in each business line delivered in the region, given the portfolio as of June 2008.

Source: Independent Evaluation Group (IEG)

75. IFC has been seeking greater alignment at the product level – product offerings within each business line. Since late 2008, IFC is seeking to distinguish its products as follows[55]:

(i) *Entry* – A new product/approach, with as yet limited or no results information

(ii) *In development* – Product with growing demand/potential for scaling up and replication across markets, and some supportive results

(iii) *Developed* – Scaled up and replicated across at least three regions, with supportive results

(iv) *Exit* – Product with low demand/other supply, and with weak results

(v) *Other* – Idiosyncratic products, suitable for a particular country/market segment, and not expected to reach scale or be replicated broadly

Of 55 AS product types that were proposed by BLLs in December 2008, only 12 products were categorized as 'developed' (31 percent of the project portfolio). This reflects the somewhat heterogeneous, experimental growth of AS products in the past, and the 'catch up' effort to bring some structure to these offerings.[56] By business line, A2F and INF had the greatest share of operations in the 'developed' prod-

uct category and ESS, which has emerged more recently, the least. The relatively lack of developed CA products is surprising, given the fact that IFC has been involved with SME development since the 1980s. This may be due in part to the fact that some classifications are not reflecting what is happening in practice. For example, SME toolkit and Business Edge have already been scaled up and replicated (and even outsourced), which would imply a more mature classification than their current 'in development'. The evaluated results that come later also suggest other possible reclassifications.

76. One problem that IFC has faced in determining whether to expand or contract product offerings has historically been the lack of robust Monitoring and Evaluation (M&E) data, through which to understand what works well, what does not, and what should be changed in order to make products work more effectively.[57] A new project–level M&E system was introduced in 2006, together with 150 standardized output, outcome and impact indicators.[58] However, reliable self–reported results data have so far been inadequate. In the absence of good results data, product classifications may to some extent reflect the quality of a product or business line leader's negotiation and persuasion skills, rather than the achieved performance of a particular product.

77. IFC expects to have an 80:20 split between core (in development and developed) products and non–core (entry and other) products.[59] Is this the right balance between product expansion and innovation/adaptation? From where should innovation originate: in headquarters, in the field? In any organization, there is always a tension between product standardization, for market consolidation and efficiency purposes, and product differentiation, for the exploration and exploitation of new market opportunities. This tension needs to be managed carefully. A review of the business literature suggests that the 80:20 ratio IFC is choosing to pursue, between core and non–core products, is broadly in line with the practice of other organizations. It could be argued that given the Corporation's mission to be a catalytic agent, greater rather than less innovation is required. However, so long as product development is based on i) client demand, ii) results achievement, and iii) IFC capability, which in principle the approach is trying to achieve, then the classification system would seem appropriate. That is, if products are well–defined from the outset. For example, it is not clear to stakeholders how some products materially differ, e.g. 'Sub–National Advisory' (exit), as opposed to 'Advisory Mandates' (developed) in the INF business line. Data on new and other product origination are limited, but suggest a relatively even balance between headquarters and local offices. It is, however, not clear what balance IFC is aiming for in this regard.

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

though they usually voiced concern about the lack of clarity surrounding integration. Again, an umbrella AS global strategy might help to bring some much–needed direction, as well as improved on the ground incentives. The issue of on–the–ground collaboration between AS and IS operations is picked up again in the 'Delivery' section of this report.

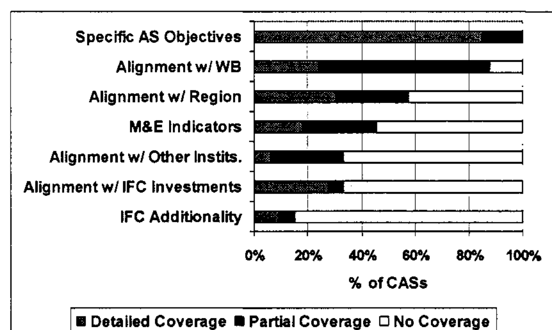
Alignment with Other Knowledge Providers

79. As well as ensuring internal strategic and organizational coherence, it is important for IFC to align effectively with other development actors who provide knowledge services. This will ensure that IFC does not duplicate, but rather complements their approaches and thereby contributes to greater development impact. The philosophy underlies the 2005 Paris Declaration on Aid Effectiveness, which inter alia called for greater complementarity among donors through a more effective division of labor.[60]

80. One important lens through which to examine alignment with others is at the country level, specifically World Bank Group Joint Country Assistance Strategies (CAS). Country level coordination is highly relevant, given that governments are involved in around a half of IFC AS clients. A review of 33 joint CASs that were produced in 2007 and 2008 reveals that alignment of IFC AS with World Bank operations is often considered, though generally only in part, and there is typically limited reference to non–World Bank actors, and to IFC additionality (see Figure 29).[61] Country strategic coordination is, however, not restricted to CASs, and other mechanisms such as private sector forums have been tried successfully in some countries.

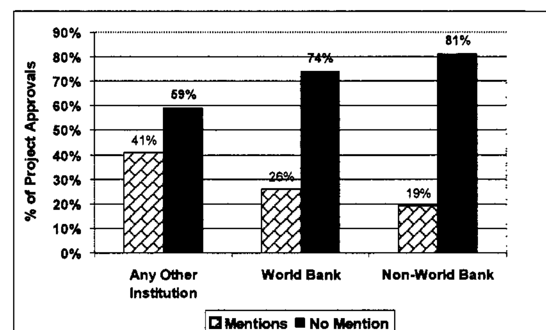
81. At the project level, it appears there is substantial room for better up–front coordination with other players. The majority of FY07 and FY08 IFC AS project approval documents, for instance, contained no mention of the activities of, and complementarities with, other actors – even to say that no other donor or commercial provider in a country, region or sector does or could provide the service that IFC is proposing (Figure 30). This gap in coverage of other players in the market is recognized by seasoned IFC managers and staff as an area for improvement. As one manager put it, "At the project level, there is often very little analysis of what others in the market are doing (which should only take two or three meetings). IFC has no business doing anything on the ground without mapping what others are doing." On the other hand, the strategies and project approval documents of other development institutions typically do not explain how their knowledge services exhibit uniqueness and align with those of other providers, so the development community as a whole has room for improvement in this respect.[62] Also, as discussed later, IFC's collaboration with donors during program and project implementation appears relatively strong.

Figure 29. Country Assistance Strategies provide limited coverage of other knowledge providers



Note: Covers 33 Joint CASs completed in FY07 and FY08
Source: Independent Evaluation Group (IEG).

Figure 30. Discussion of the activities of, and complementarities with, others in project approvals is weak



Note: Covers 248 projects approved in FY07 and FY08.[63]
Source: Independent Evaluation Group (IEG)

82. Strategic coordination can also happen globally, regionally and by theme/sector. A good example is the creation of a WBG units such as FIAS, which accounts for around 20 percent of AS activities with government clients. A more recent example is the development of a joint WBG response to the global financial crisis, including new resources, and some reallocation of funds, for IFC AS. Going forward, IFC plans to place particular focus on its AS to the financial sector (especially financial regulation matters) and infrastructure, restructure existing business lines and products, and introduce new efforts to help clients with risk management and workouts/restructuring.[64] These efforts are still evolving, and their effectiveness will take time to determine. Past evaluation data on AS crisis responses is generally lacking, since IFC's M&E system emerged only from 2006 (post any major developing country crisis). Also, IFC AS was relatively small in scope during past crises. This evaluation provides some illustrative evidence of how relevant and useful IFC AS was during prior crises (in the Results section), but focuses more on general insights that can be factored in as the WBG continues to adjust to the crisis, and to help inform the overall alignment and delivery of AS. At the regional level, a certain degree of donor activity mapping has occurred, for instance with the development of the South Asia Enterprise Development Facilities. But interviews with staff and donors suggest more could be done in this area.

Delivery of IFC AS

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

- Funding
- Project design and implementation
- M&E Systems
- Internal and External Collaboration

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

Funding

84. A key factor in the delivery of any service is its funding. This is especially true of IFC AS, the emergence of which was closely associated with availability of donor funding. The heterogeneous nature of donor funding, and resultant programs, raised concerns within IFC about the efficiency of this model of funding for AS (not least because new initiatives required donor approval before being initiated, which could lead to delays in addressing client needs). Thus, in 2004 IFC established the Funding Mechanism for Technical Assistance and AS (FMTAAS). At the same time, IFC began seeking donor funding across longer horizons, and on a more 'pooled' basis, i.e. for a range of projects in a particular region, all regions, or within a certain business line. IFC also looked to new, non–governmental sources of funding, such as institutional and private partners/ foundations, which provided 20 percent and 3 percent of donor funds respectively between 2004 and 2008. FMTAAS involves taking a portion of IFC's retained earnings and allocating it to the FMTAAS Trust Fund (using a sliding scale formula). Since 2004, IFC has made $715 million worth of FMTAAS contributions. This compares with $739 million of donor commitments, a leverage ratio of approximately 1:1 (Table 8).[65] Total donor commitments have been highest for global programs, and lowest for LAC (Figure 31), while donor leverage has been the greatest in South Asia, where donors cover all of the costs of the Bangladesh Investment Climate Facility, and most of the costs of SEDF, and lowest in LAC, where IFC is expecting to cover most of the LAC Program, the only facility in the region (Table 9).

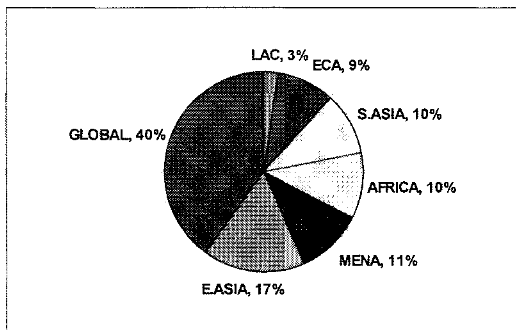
85. Since donor commitments are now typically pooled, for multi–year programs, and FMTAAS is designed as long term pot of funds, IFC's AS programs are, in effect, funded several years out. Around a half of FMTAAS funds committed, $332 million, has been spent to date. At the same time, the financial crisis is starting to affect commitments, in that no FMTAAS contributions are anticipated in FY09, and donor contributions for new programs may be adversely affected. Donor funding is sometimes still raised on a project–by–project basis, as in Central and Eastern Europe, which not only raises sustainability concerns, but also is not a cost–effective approach to fund raising.[66]

Table 8: Two Main Funding Sources: Donors and IFC

Year	**Donor Commitments** ($ million)	**IFC FMTAAS Commitments** ($million)	**Total Commitments** ($ million)	**Leverage (Donor $ / IFC $)**
FY04	142.8	36.0	178.8	4.0
FY05	99.8	222.8	322.6	0.4
FY06	172.9	93.3	266.2	1.9
FY07	112.4	184.6	297.0	0.6
FY08	210.7	178.2	388.9	1.2
TOTAL, FY04–08	**738.6**	**714.9**	**1,453.5**	**1.03**

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

Figure 31. Donor commitments, by Region, FY05–08



Source: IFC DFOnet.

Table 9: Donor funding leverage has been highest in South Asia

Rank	Region	Leverage (Donor $ / IFC $)
1	S.ASIA	7.9
2	M.EAST & N.AFRICA	3.3
3	S.EUROPE & C.ASIA	2.4
4	E.ASIA & PACIFIC	2.4
5	AFRICA	1.2
6	C.&E.EUROPE	1.2
7	L.AMERICA & CARIBB.	0.5

Note: Including funding cycles that were current in June 2008
Source: IFC Financial Controller reports.

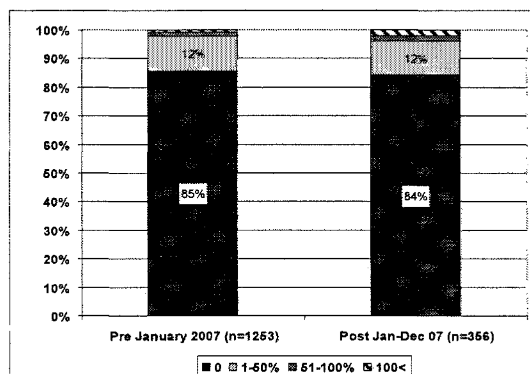
86. In the last few years, IFC has been seeking a third source of funding, which become even more relevant in the event that FMTAAS and donor funding falls substantially: client contributions. The thinking behind this, set out in a Pricing Policy that was introduced in January 2007, is as follows: first, to obtain client commitment to a project or program; second, to avoid market distortion (competition with other knowledge providers and/or cross–subsidy of an IFC investment) by asking clients to pay towards the cost of private goods; third, to target any cost subsidies at public goods. The policy implies 100 percent or greater client cost contribution in the case of a private good, such as corporate governance advice to a company, and some (though less than 100 percent) cost contribution in the case of a public good, for instance advice to a government on business regulation. IFC management allows a certain degree of flexibility in applying the pricing policy, depending on the project context. However, staff are expected to start from the assumption of 100 percent client cost contribution, and justify any contribution less than that as a special case.

87. In the two years since it was introduced, the Pricing Policy has yet to have significant traction. The vast majority of projects, pre– and post– the introduction of this policy, have received no or limited contributions by clients (Figure 32). Realized client contributions for approvals in CY 2007 (following the introduction of the pricing policy) amounted to $13 million, or 10 percent of total expenses – implying, improbably, that 90 percent of services were 'public good' in nature. This compares to $26 million, or 9 percent of total expenses, for approvals prior to CY 2007. By region, MENA has achieved the highest level of client cost contribution and CEE the least. By business line, client contribution was generally higher the greater the private good component (the share of excludable benefits the client receives): hence, INF and CA had higher cost recovery than BEE (Table 10). Nonetheless, whichever region and business line, client cost contribution fell well short of 100 percent.

88. In general, AS teams have found full execution of the pricing policy to be challenging. Staff report that they sometimes fear losing projects to other donors who are providing similar advice for free, or losing them altogether, if they ask clients to pay. This reflects somewhat of a supply–driven mentality (the issue is magnified for consultants, who will likely lose a future income flow in the event the project does not proceed). In other cases, clients who did not previously pay for IFC services have shown reluctance to commit to cost sharing. Clients know that IFC is using other people's money (donor funds), which also perpetuates expectations that it should be free. Meanwhile, government clients of-

ten face fiscal, policy and procedural constraints in providing contributions.[67] Cost contribution by clients is generally higher in non–IDA countries than IDA countries, though not always. For example, contributions have been considerably higher in Madagascar (IDA) country than Indonesia (non–IDA country).[68]

Figure 32. Client Contributions to AS costs are still very limited



Note: Calculated as actual client cost contribution / actual expenses. Does not include in kind contributions, e.g. use of office space.
Source: IFC TAAS Database

Table 10: MENA and INF have the most, though still limited, cost contributions by clients

Rank	Ave. cost recovery (%) REGION		Ave. cost recovery (%) BUSINESS LINE	
1	MENA	18%	INF	13%
2	LAC	8%	CA	7%
3	SSA	4%	A2F	5%
4	SA	3%	ESS	3%
5	SECA	3%	BEE	1%
6	EAP	2%	OVERALL: 5%	
7	CEU	1%		

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

89. The slow implementation of the pricing policy raises several concerns. First, the willingness of clients to contribute toward the cost of a service (where they are able to pay) provides some feedback about the value they place on the service – including for nominally public goods. Indeed, the IMF is also seeking to introduce charging for its Advisory Services[69], while IBRD charges a full fee–for–service basis for some advisory work in upper middle–income countries (about $15 million per year). In general, the higher the level of client contribution, the higher the value they assign to the project. In the absence of a contribution, there is no 'market test' of the project's value. Indeed, the provision of free or near–free AS could be market distorting, because: i) the project may directly compete with projects offered by private providers of knowledge services, and ii) IFC may be indirectly competing with other financiers by effectively cross–subsidizing an investment it has with the same client. The risk is that a company agrees to a loan than it could have obtained in effect more cheaply from other sources, removing IFC's financial additionality in the deal. There appears to be some limited evidence of cross–subsidy (as shown in Table 11), that will need to be addressed going forward. IFC additionality with respect to AS alone may also be in question, especially where the company is already being provided similar services.

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

Table 11: Some free– or near–free AS operations are, in effect, cross–subsidizing IFC Investments					
Type of IFC Investment	**Number of AS projects** (Jan. 2007– Jan. 2008)	**Level of Cost Recovery**			
		Zero	**1–50%**	**51–100%**	**>100%**
Loan	41	66%	24%	5%	5%
Equity	17	88%	8%	0%	0%
Loan & Equity	13	77%	12%	15%	0%
IS in prospect	18	83%	17%	0%	0%
All AS linked with investment (excluding BEE)	89	75%	18%	4%	2%
AS not linked with investment (excluding BEE)	200	85%	12%	2%	2%

Note: As at November, 2008. Numbers of projects by business line are too small for inter–business line comparisons.
Source: IFC TAAS Database

Project Design and Implementation

91. Past IEG evaluations and external reviews of specific AS programs have repeatedly stressed the importance of good project design and implementation for stronger impact, both for beneficial outcomes and the avoidance of adverse outcomes.[70] IFC has responded to the need for sound design and implementation by introducing standardized procedures for approval and supervision, in 2005 and 2006 respectively. This review found some evidence of good practice design and implementation, for projects approved since then, but overall room for improvement remains. The INF and BEE business lines stood out as an area in which project design procedures were generally stronger, with INF having established Quality at Entry (QAE) components that mirror those used on for new investment operations (i.e. with concept notes, clear risk identification, lessons from past operations, peer review, etc). However, QAE efforts of this depth were rare among other business lines, beyond the creation of standardized approval documents – with, as discussed earlier, often weak rationales for IFC embarking on a new project, and, as discussed later, limited use of appropriate baseline data.[71] Key design flaws identified in this and other reviews included: insufficient tailoring to local conditions (particularly when delivered from afar), and lack of realistic timetables.

92. The evaluation system does not currently track project implementation quality on a systematic basis, but past evaluation work shows that strong implementation can compensate for weaknesses in project design. Interviews with, and IEG's survey of, managers and staff, confirmed that project implementation quality has been highly inconsistent. Influences on project implementation quality that emerged in interviews with managers and staff, and in PCRs, included: level of staff experience, degree of staff continuity, balance between local and global, and in–house and external expertise, quality of short–term consultants, internal procedures which have made for a slow disbursement of funds, level of client commitment, lack of clearly defined exit strategies, the tension between operational growth and portfolio quality, and lack of robust mechanisms to hold individuals accountable for poor deliverables.

Client commitment, tailored knowledge and strong performance M&E were especially important, as reflected in their effects on project performance ratings (see 'Results' section).

93. The staffing model for AS differs from that of IS. First, AS staff have been based more in the field, as illustrated earlier. Second, they tend to be newer to IFC than those involved with investment operations (60 percent of AS staff have been with IFC less than three years). Third, over two–thirds of AS staff are on coterminous contracts (linking the staff contract to program funding). Fourth, there has also been a much higher propensity to use short–term consultants in project implementation on the AS side: AS employs as many consultants as staff each year, while IS employs twice as many staff as consultants. In general, which reflects the labor–intensive nature of knowledge provision, staffing and consultant costs have made up a higher share of total project costs – around a third each (Table 12).

Table 12: The ratio of staff : consultant expenses is roughly 1:1

Expense Type	FY05		FY06		FY07		FY08		Average, FY05–08	
	$	%	$	%	$	%	$	%	$	%
Staff	38.5	32%	51.0	34%	63.9	34%	82.7	34%	59.0	34%
Consultants	34.7	29%	37.1	25%	56.1	29%	72.3	30%	50.1	28%
Travel	13.0	11%	18.5	12%	23.4	12%	35.4	14%	22.6	13%
Other (e.g. office rent & equipment)	32.5	27%	42.5	29%	47.1	25%	54.3	22%	44.1	25%
Total	118.7	100%	149.1	100%	190.5	100%	244.7	100%	175.8	100%

Source: IFC Financial Controller reports.

94. Several opportunities and challenges have emerged with this staffing model. First, since staff are based predominantly in the field, IFC should in principle be able to better appreciate client needs and to tailor project design accordingly. On the other hand, as field staff tend to have stronger local than global expertise, it is a constant effort for IFC to ensure that it transmits international best practice to a local setting – and retains global knowledge as a comparative institutional advantage over other knowledge service providers. As IEG's evaluation of the PEP–ECA illustrated, getting the right local/global mix of staff is fundamental to success.[72] Second, while contracts of shorter duration have provided IFC management with increased flexibility, they have also meant a less well defined career path for AS staff, with career progression dependent on the continuity of program funding rather than one's professional potential. While competencies for AS have recently been developed, there are no explicit incentives, as there are for investment staff, either in the form of volume or locus of activities, or development impact. These factors help explain why the vast majority of IFC staff – whether or not they are employed in AS – believe that AS staff are less valued than their counterparts on the investment side.[73] Going forward, given the greater presence of AS teams on the ground, there may be avenue for more long term arrangements, with AS staff driving greater synergies between the two arms of IFC's business. However, there would need to be appropriate training, including to manage for possible COI risk.

95. Third, the extensive use of short–term consultants in project delivery affords IFC the opportunity to buy in expertise for a specific purpose, but it does also presents continuity and quality issues, with ramifications for IFC additionality. In FY08, the cost for employing consultants was $72.3 million,

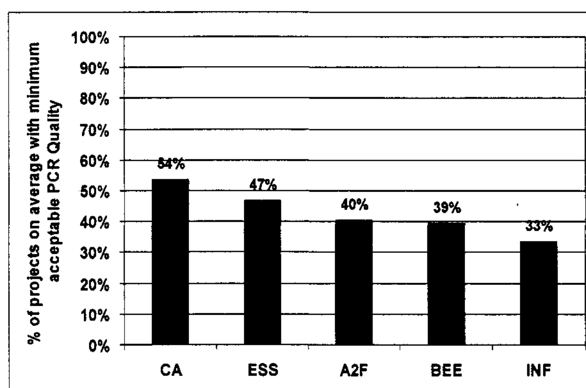
only slightly less than IFC staff costs ($82.7 million), with a ratio of consultants:staff ratio of around 1:1. Continuity issues arise since the contract, by its nature, is a one–off arrangement, and IFC cannot promise clients any long term implementation support if it does not reemploy the same consultant and needs to return to the market to recruit in the skills. Quality issues arise in the need to: i) train new consultants in IFC methods and procedures (not least M&E), and ii) offer unique knowledge, as IFC is in effect only functioning as a sourcing and funding agency if the consultant is already available in the market. Feedback from clients confirms these service continuity and quality concerns, suggesting in several cases that a more 'hands on' approach to oversight of short–term consultants might be required by IFC and a general preference for IFC staff rather than consultant support.

M&E Systems

96. As mentioned earlier, effective M&E is essential for learning what works well, what does not, and how strategy and operations should be redirected going forward. IFC management understands the importance of M&E and in 2006 introduced a new M&E system for AS, including standardized project approval, supervision, and completion reports. At completion, the AS team provides a self–assessment of performance in a Project Completion Report (PCR), followed by independent review and validation by IEG (EvNote). The PCR and EvNote are completed following project closure, as opposed to early operating maturity in the case of investment operations, which tend to have longer project lifecycles. PCRs are completed for all AS projects, unless they were dropped or terminated (which may be a lost opportunity for learning, and bias results). IFC has complemented the introduction of the PCR system with the completion of some 51 program, product and project reviews by commissioned consultants (including a handful of impact evaluations[74]), the establishment of an IFC/WBG project lessons awards program, portfolio review meetings, as well as experimenting with cost–benefit analysis. Finally, IFC has introduced activity–based costing, although managers and staff report limitations with the IT platform. Taken together, these efforts put IFC at the forefront of results measurement among multilateral development banks (MDBs) and major donor organizations.

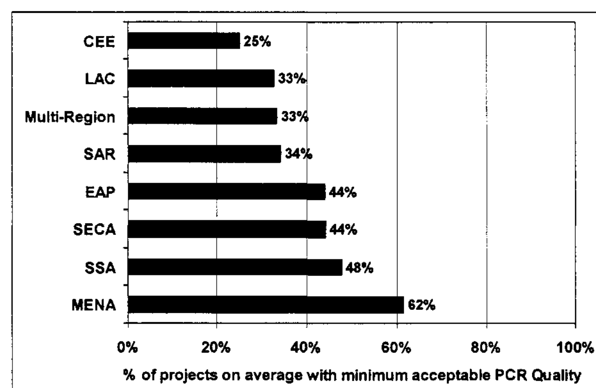
97. Notwithstanding these steps toward improved performance measurement, as with the introduction of most new systems, there have been teething pains. IEG has assessed PCR quality across the following dimensions: use of measurable indicators, appropriate baseline data, soundness of logic model (differentiation between outputs, outcomes and impacts), comprehensiveness (discusses results of all components), concurrence with supervision reports, and incorporation of useful lessons.[75] Based on 458 reviews carried out by IEG between 2006 and 2008, there remains considerable scope for improvement, and the approval and supervision documents that precede the PCRs, e.g. in setting performance baselines and tracking performance against them. The CA business line and the MENA region show better quality than others, but the general picture is of low PCR quality (Figures 33 and 34).[76]

Figure 33. Project PCR quality, by business line



Note: 'Minimally acceptable' quality is defined as, on balance, incorporating the following dimensions 'to some degree': use of measurable indicators, appropriate baseline data, soundness of logic model, comprehensiveness (discusses results of all components), concurrence with supervision reports, and incorporation of useful lessons.
Source: Independent Evaluation Group (IEG) PCR Reviews.

Figure 34. Project PCR quality, by region



Note: 'Minimally acceptable' quality is defined as , on balance, incorporating the following dimensions 'to some degree': use of measurable indicators, appropriate baseline data, soundness of logic model, comprehensiveness (discusses results of all components), concurrence with supervision reports, and incorporation of useful lessons.
Source: Independent Evaluation Group (IEG) PCR Reviews.

98. IFC–commissioned reviews of AS facilities, products and projects, while offering some insights on the organization and delivery of AS, have exhibited some issues with independence. An evaluation is independent when it is "carried out by entities and persons free of the control of those responsible for the design and implementation of the development intervention." This indicates that independent evaluation presumes "freedom from political influence and organizational pressure", "full access to information", and "full autonomy in carrying out investigations and reporting findings."[77] By contrast, the facility and product reviews that have been conducted to date have often been commissioned, overseen, and approved by the responsible facility and product managers. Project reviews have been carried out in something of a more detached way, under the purview of the Results Measurement Unit. While IFC–commissioned reviews can never be truly independent, the degree of freedom from political influence and organizational pressure can be enhanced, for example through a different part of the organization to that being reviewed initiating and managing the review.

99. Methodological quality has also been inadequate. The methodological approach has often not been well articulated and, in the case of regional reviews, has depended to a large extent on interview evidence. In one case, the program team requested that the consultant focus the review on just four cases, all success stories. Also, the reviews to date have placed limited emphasis of results and more on delivery (Table 14 and Annex 9). Such a focus clearly limits the generalizations that can be made about the performance of a facility, product or project and, ultimately weakens the basis on which decisions can be made about future funding. Also, the product and project evaluations have been highly clustered, in the CA business line (see Table 13), suggesting the need for more systematic selection of evaluation topics.[78]

Table 13: Few external reviews have thus far focused on impact

Level	Coverage	Business Line	Region	Focus of Review	Number
Program	Regional facility	All	EAP, LAC, MENA, SA, SSA,	Delivery	6
	A2F Business Line	A2F	na	Delivery	1
Product	Single Product	A2F: 3 BEE: 2 CA: 10 ESS: 1	na	Delivery	16
Project – Ex–post	Single Project	A2F: 2 CA: 13 BEE: 6 ESS: 2 INF: 5	LAC:9 SSA: 6 EAP:5 SECA:3 MENA:2 CEU:2 SA:1	Outcomes vs. objectives	10
Project – Ex–ante	Single Project			Performance Baseline	8
Project – During	Single Project			Progress Report	3
Project – With/without	Single Project			Impact vs. alternative: Pre/post Quasi–Experimental Experimental	 3 3 1
					51

Note: Based on reviews that had been completed by December, 2008.
Source: Independent Evaluation Group (IEG), based on IFC Results Measurement Unit report database.

100. A good results measurement system should cascade throughout an organization. On this basis, there are some other gaps in terms of the M&E of AS. At the corporate level, IFC's scorecard, albeit with some limitations, includes targets for IFC development impact and reach largely through its investment operations. Indicators for AS are very limited, which to some extent reflects the relative immaturity of the project M&E system, but also the absence of established M&E indicators for IFC's impact at a programmatic level.[79] The targets that are included for AS pertain to the number of PPP advisory mandates and level of overall AS expenditures, neither of which captures IFC's development impact.[80]

Collaboration with Others

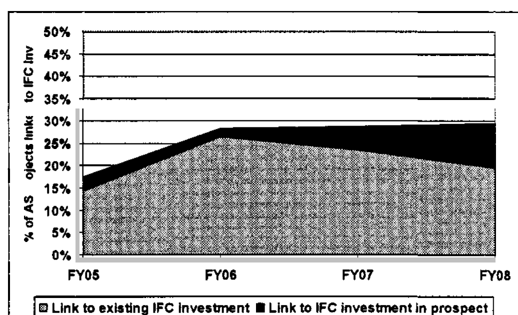
101. Strategic cooperation – both internally and externally – is critical for IFC if it is going to maximize its additionality and play its development role to the fullest. The need for good cooperation also applies to service delivery (collaboration). This section looks at three important types of service delivery collaboration: i) With IFC Investment operations; ii) Across the WBG; iii) With donors.

102. Between 2006 and 2008, some 30 percent of AS projects were with existing or potential IFC investment clients (Figure 35). This contrasts with EBRD, where 88 percent of AS activities support EBRD investment projects, and EIB, where virtually all AS is tied to existing or potential investments. As Figure 36 shows, links are especially strong for A2F projects (46 percent), and most limited for BEE projects (2 percent, reflecting their predominantly public good nature). The section on results examines whether stronger additionality and development impact seem to have been realized as a consequence of various ties between AS and Investment operations.

103. Beyond the project level, there has been limited programmatic integration between AS and IS to date, reflecting some of the alignment challenges cited earlier. IEG's survey of, and interviews with, IFC managers and staff, found repeated reference to integration between AS and IS as something IFC

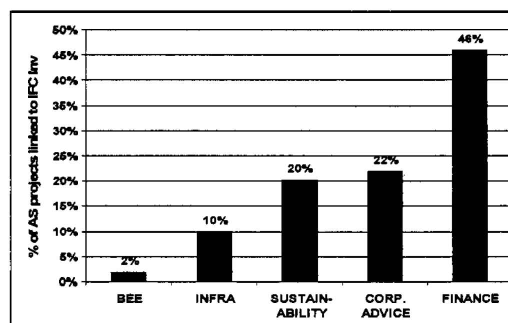
did least well in delivering its AS. They also pointed to disincentives to align, discussed earlier, such as different program and personal objectives (the latter particularly important for AS staff whose future depends on the continuation of a program), as well as practical constraints such as unclear understanding about the intended model for AS/IS integration, and different program timetables and cultural differences between the two businesses. As a generally more programmatic business, with greater field presence, as IFC continues to decentralize its IS, there appears to be strong potential for AS to serve as the anchor for linkages between the two. But a clear integration paradigm and operational incentives to integrate are not yet apparent.

Figure 35. Just under a third of AS operations are linked to IFC IS operations



Source: IFC TAAS Database

Figure 36. AS/IS linkages are greatest for Access to Finance operations



Source: IFC TAAS Database

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

105. Conflicts between IFC AS and IS relate to IFC having an actual, apparent or possible financial interest (e.g., loan or equity interest) in an issue on which IFC is advising. For example, an IFC investee company may express interest in bidding for a privatization deal on which IFC is acting as an advisor. In this case, the AS infrastructure advisory team's independence and objectivity could be compromised by a perception of favoritism or if public confidence in their independence and handling of confidential information is eroded. COI risk can arise when IFC gives regulatory advice to government clients on the one hand, and, on the other, has investment or financial interest in private sector entities whose business prospects are materially affected by the regulatory advice. For instance, an AS project involving assistance to a central bank to develop banking supervision modalities raises significant COI concerns if IFC has investment interests in the regulated banks in the country. Such COI cases typically exhibit greater COI risk than 'single borrower' AS projects delivered to IFC investee companies.[81]

106. IFC's COI guidelines stipulate that BLLs and RDs are primarily responsible for identifying actual, potential or perceived COI with respect to operations in their respective departments, and managing

these cases – with or without the assistance of the COI office. Staff are expected to inform the BLL and/or Regional Director in a timely fashion any issues relating to COI, and BLLs/RDs determine whether any COI exists, and whether assignments should be referred to the COI Office for clearance (as well as whether directors outside of the joint departments are likely to be affected and should be notified). Handling of COI is also the responsibility of BLLs and RDs, as is ensuring that staff are adequately trained. The COI guidelines lay out several mechanisms that should be considered in effective handling of COI: i) providing full disclosure to the affected parties; (ii) obtaining client consent to multiple roles to be played by Bank Group entities; (iii) instituting separate project teams as appropriate; (iv) sequencing assignments; (v) reducing the scope of an assignment; (vi) transferring the assignment to a unit outside the jointly managed department; and (vii) establishing mechanisms to protect the flow of confidential and other sensitive information.

107. In the past, there had been no systematic data on the extent to which COI cases are identified and settled, outside of those referred to the COI office, so it was not possible to determine how comprehensively COI cases had been identified and managed. AS/IS conflict situations accounted for 151 (51 percent) of 298 total referrals to the WBG COI office between FY 2006 and FY 2008. By business line, most Advisory/Investment COI cases relate to the INF and A2F business lines (39 and 29 percent of cases respectively).[82]

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

109. Collaboration in knowledge service provision across the WBG is important in at least two respects. From a purely practical perspective, IFC shares the same primary client as the World Bank in around half of its AS operations: government. Close coordination of efforts can provide for delivery efficiencies, on the part of both the WBG as providers and also government as a client (lower transaction costs). More importantly, combining approaches has the potential to contribute to greater development impact, through identification and exploitation of respective comparative advantages and synergies, avoiding service duplication, and learning from one another. This potential has been recognized by IFC and World Bank management, and various steps have been taken to align service delivery, including: the establishment of joint departments and teams; the transfer of MIGA Investment Promotion Agency technical assistance work to FIAS/IFC; joint IDA/IFC Secretariat; joint strategy sessions; and guidelines for IFC advisory staff on cooperation with the Bank. It should be noted that

the costs, and risks, of cooperation may sometimes exceed the benefits of cooperation, and thus the appropriate level of cooperation needs to be judiciously determined.[83]

110. In principle, there is most fertile ground for cooperation on BEE and INF work, where the client is typically government. Opportunities for cooperation do also arise in relation to ESS, A2F and CA, although generally to a lesser extent (client is usually not government). In practice, cooperation appears to have followed this pattern. Of the 26 percent of new project approvals in FY07 and FY08 that refer to World Bank activities, nearly two–thirds were BEE operations and one–sixth INF operations. While documentary reference to another institution's activities does not necessarily mean that there was actual cooperation or that it was of a good quality, these data are consistent with feedback received from interviewed IFC and World Bank staff about areas in which cooperation is taking place.[84] Recent examples of WBG cooperation include a joint Doing Business Reform Advisory unit, BEE programs in Bangladesh, Kenya and Yemen, joint infrastructure projects in Kenya, Senegal, and Uganda, and IFC advisory staff providing diagnostic and implementation support to IBRD loans in Georgia and Tajikistan.

111. At the same time, staff also pointed to lack of organizational and personal incentives to cooperate, even to compete with one another[85], and a lack of clarity about the other institution's products, delivery mechanisms, respective roles and comparative advantages. In Bangladesh for example, WB staff had little knowledge of the nature of IFC's AS activities in the country, and vice versa. In general, staff felt that opportunities to exploit synergies were not being maximized, with potential in some cases for service duplication. The fact that around a half of new IFC AS project approvals with government clients do not even mention the Bank provides broad corroboration of less than optimal engagement across the WBG. Issues of competition, or overlap, came up most in relation to BEE work, where the line between one institution's activities and those of the other is blurred. Client governments can potentially be dealing with four different units of the WBG (FPD, PREM, FIAS, and an IFC regional facility). At present, joint BEE teams that bring these units together in one delivery platform are the exception, not the norm. The relative growth of IFC/FIAS activities provides an impetus for renewed focus on alignment of BEE services across the WBG, although there does seem to be resistance from some individuals who fear a loss of established 'turf'. There is no system in place to systematically measure and monitor the results of such efforts, which is an issue for the WBG as a whole to address and that has been identified in previous IEG evaluations (in addition to general incentive issues).[86]

112. During the course of its regional visits, IEG met with around 30 representatives of donor organizations, who provided valuable feedback on IFC's delivery performance. Donors included CIDA, DFID, FMO, SIDA, and USAID – all major contributors of funds to IFC AS programs. On the whole, donors reported a high level of satisfaction with IFC, offering favorable views on the technical quality, relevance and timeliness of IFC's work, as well as the pricing policy (as a means to reduce subsidies for the supply of private goods, and target donor funds purely at public goods, if implemented effectively), and the relative sophistication of IFC's M&E framework (although they had yet to see much reporting on outcomes and impacts). IEG's survey of IFC managers and staff, as well as an IFC–commissioned survey of donors, broadly concur with the view that IFC's relationship with donors on the ground is generally sound.

113. Some donor representatives, however, felt that IFC should be more active in its outreach and knowledge dissemination. The desire for more IFC outreach was also raised by other stakeholders (e.g. UNDP, USAID), during IEG field visits. IFC was frequently compared to the WB, and several

times stakeholders felt that "IFC is not at the table". In other words, IFC's presence on the ground does not appear to have translated into visible outreach for some stakeholders. "We know IFC is there, but we do not feel them" was another comment that was made. This view was shared by a number of IFC managers and staff with whom were interviewed by IEG, who also felt that it was to some extent a trade–off of rapid growth, i.e. lack of time to do outreach. Donors generally had the most favorable view of outreach efforts in the ECA region. However, the approach in this region does rely on a different funding structure and engagement with donors – project by project – than is in other regions, so it may not be replicable. In which case, an alternative approach may be required, such as more dedicated donor/partnership relations people in the field. At present, the outreach task often falls to managers and staff who are otherwise engaged in program delivery.

Comparing IFC AS: How Others Deliver Knowledge Services

114. It is instructive to compare the way that IFC delivers its AS with other development institutions that have private sector oriented knowledge services programs. IEG's comparator review included a comparison of the funding/pricing, delivery mechanisms, and M&E systems of each of the major multilateral donors – EBRD, ADB, IDB, AfDB, EC, and EIB – and two bilateral donors, DFID and DANIDA.[87] The review also looked at their knowledge service strategies, activities, comparative advantages, and evaluated results, which are covered elsewhere in the chapter. It should be noted that some benchmarking of service provision with other institutions has taken place in IFC, but on a fairly limited scale.[88] IFC may accordingly be missing out on opportunities for learning from others, and adjusting its services for maximum comparative advantage and impact.

115. The comparator review found a number of common delivery issues among institutions, with IFC's delivery approach generally comparing favorably with that of other development institutions. Common delivery issues included: improving donor coordination through pooled funding approaches; relative ad–hoc project design and weak quality at entry; striking a balance local and non–local staff, and between in–house and outsourced expertise. IFC exhibited relative strengths in terms of its approach to funding (pricing policy), M&E, procedures for handling COI, and steps toward greater product standardization – assuming these measures are implemented effectively. See Box 6 for a summary of findings of the review of comparator MDBs.

Box 6. How does IFC's delivery approach compare with that of other development institutions?

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

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

Project Design and Implementation: In general, relatively ad–hoc project selection (more than strategies would suggest), and weak quality at entry; striking a balance between local and regional/global staffing and between using in–house staff and consultants; lack of output/product standardization (which IFC is moving toward).

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

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

Results of IFC AS

116. This section examines the following three dimensions of IFC AS results:

- Relevance of Resource Allocation
- Project Development Effectiveness
- IFC Additionality

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

Relevance of Resource Allocation

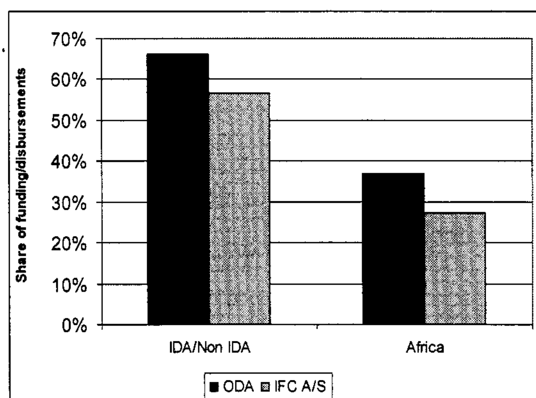
117. A necessary (but not sufficient) condition for development effectiveness is relevance: the extent to which resources were allocated where the need was greatest, and consistency with corporate strategic priorities. In general, IFC appears to be targeting its AS resources toward high need destinations (and WBG strategic priorities): SSA as a region and low income IDA countries more generally. This allocation pattern is broadly in line with the general pattern of official overseas development aid – grants, loans and technical assistance provided by official agencies to developing countries (Figure 37) – and thus reinforces the need for IFC to carefully map its activities against those of other aid organizations, particularly where the client is a government agency and recipient absorptive capacity is weak, to avoid overlap.[89]

118. By business line, resource allocation has been focused on countries that would appear to be most in need, prima facie, of knowledge services (see Table 14). Individual project evaluations support this conclusion, with strategic relevance rated high in the vast majority of cases. Instances of low strategic relevance, however, even if relatively small in number, do tie up resources that might have been used on other, more relevant endeavors, i.e. they impose an opportunity cost on IFC. There may also be implications for IFC additionality, if the service IFC is providing could have been obtained from another source – as with a small number of operations in high income countries (that are nominally intended to support 'south south' investments). For some business lines, there is no direct comparator with the pattern of IFC investments, but where there is, e.g. infrastructure, AS appears to be somewhat more oriented to high need countries. This reflects the need for the appropriate enabling environment for an investment to take place, e.g. an appropriate legal framework for PPPs. It also highlights the potential for AS to serve as an anchor for closer synergies between AS and IS teams – rather than the alternative of AS feeding off investment client needs – in that the AS intervention in the sector would precede, and help set up the conditions for, the investment intervention (so long as the investment takes place on a level playing field, i.e. avoiding any COI, as discussed above).

Project Development Effectiveness

119. The real test of effective resource allocation is whether the project actually delivered beneficial impact on the ground. The PCR system, introduced in 2006, seeks to capture such results. This system, as well as assessing 'strategic relevance', includes measures of 'output achievement' 'outcome achievement', and 'impact achievement'. Taken together, considering also the project's 'efficiency', an overall synthesis rating (not an average) is assigned for the project's 'development effectiveness'. See Box 7 for definitions and criteria for each of these evaluative terms.

Figure 37. Majority of Operations in IDA Countries; Similar to Official Aid Pattern



Note: Shares are based on 2006–2007 calendar year AS funding and net ODA disbursements
Source: IFC TAAS and OECD Databases

Table 14: By business line, resources have tended to be allocated to countries (prima facie) in greatest need

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

Note: *With an Institutional Investor country credit risk rating of less than 30 (out of 100). Computed by $ volume, at June 2008.
Source: IFC TAAS and Doing Business databases; Institutional Investor; World Bank A2F and PPI databases, Environmental Performance Index 2008.

120. Considering the relative immaturity of the PCR system, IEG has focused much of its effort to date on the evaluative substance of the PCRs, assessing the sufficiency of evidence and correct application of the guidance in assigning ratings – supplemented with selective field validation. In 2008, IEG undertook field verification of performance in around a third of cases.[90] IEG has reviewed 458 of 707 PCRs completed by IFC up to June 2008 – a coverage rate of 65 percent, and representative across multiple dimensions – see Annex 7 for further details.

Box 7. How is Development Effectiveness rated?

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

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

Output Achievement – Immediate project deliverables (products, capital goods, services or advice).

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

Impact Achievement – Intended longer–term effects of the advisory intervention.

Efficiency – Ratio of costs to benefits; Economy in use of resources; Cost in relation to alternatives

These ratings are then synthesized (not averaged) into a single **Development Effectiveness** rating, on a six–point scale from Highly Successful (overwhelmingly positive development results and virtually no flaws) to Highly Unsuccessful (negative developments and no positive aspects to compensate). The full rating criteria for each of the indicators are set out in Annex 8.

121. Evidence of achieved results from AS can be hard to discern for two reasons related to the nature of knowledge transmission. First, knowledge is, in many senses, intangible. New methods of thinking and work habits, and their effects, can not easily be measured. Second, even when knowledge is tangible, such as with the specific diagnosis of a gap in business procedures, the response (improved procedures) may take some time after project completion to have an impact (as those affected by the new

procedures take time to adapt). Thus, some knowledge impacts will never be captured, and others not at project completion, when results evaluation is currently carried out. These constraints are compounded by the relatively weak application of M&E guidelines to date by IFC staff. More consistent M&E quality where development effectiveness is discernable, as well as post–project completion M&E follow up, would enable greater understanding of development effectiveness.

122. Together, these factors have contributed to IEG being unable to assign development effectiveness ratings in 38 percent of reviewed operations, and impact ratings in 72 percent of cases.[91] Of the 38 percent of cases, some 25 percent were rated too soon to tell at the time of completion. Weak M&E quality meant that development effectiveness was not discernable in approximately 10 percent of cases.[92] More consistent M&E quality, as well as post project completion follow up, would enable greater understanding of development effectiveness.

123. Of the 285 projects for which development effectiveness ratings could be assigned, some 70 percent were rated high for development effectiveness. Among the individual indicators, there was considerable divergence. As Figure 38 shows, projects were rated strongest on strategic relevance (90 percent high), and weakest on impact achievement (52 percent high). Illustrations of high development effectiveness are provided in Box 8. The impact rating is a particular concern, since IFC is ultimately in the business of promoting development impact. At the same time, impact is less within IFC's control than relevance, since it takes time to achieve and in the process can be influenced by exogenous factors, notably the level of client commitment to the project.

Box 8. What does strong AS development performance look like?

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

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

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

Corporate Advice: Linkages project that IFC helped structure led to nearly 200 small businesses winning contracts with an IFC client worth approximately $40 million per year.

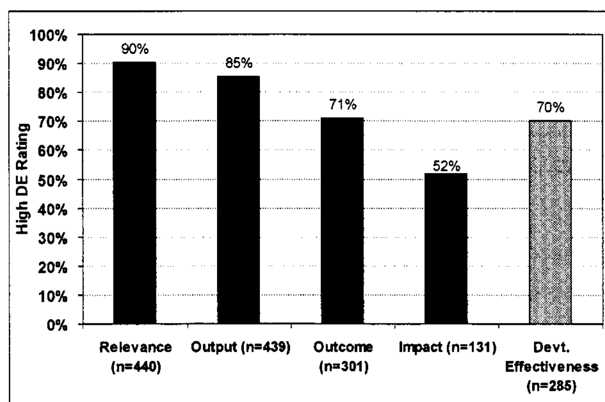
Environmental and Social Sustainability: IFC project helped improve the labor conditions for over 50,000 workers in a country's apparel industry.

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

124. The INF, BEE and CA business lines exhibited the highest development effectiveness ratings (between 71–77 percent high). However, performance lagged in ESS, which had a significantly lower proportion of projects with high ratings, 58 percent, than other business lines (Figure 39). This was mainly associated with weak performance in LAC and SSA (42 and 17 percent of projects, respectively, achieved high ratings). The ESS ratings are concerning, for a number of reasons. First, as evaluation of IS has shown, SSA has historically exhibited the weakest standards of, and commitment to, environmental and social performance, both at the country and company levels.[93] Second, ESS is one of the main business lines in the LAC region, accounting for around a quarter of projects. Third, attention to environmental and social issues tends to weaken when companies are in financial distress, which is a growing phenomenon in light of the current global financial crisis. It should be noted that products in the ESS business line are generally younger and less replicated than those of other busi-

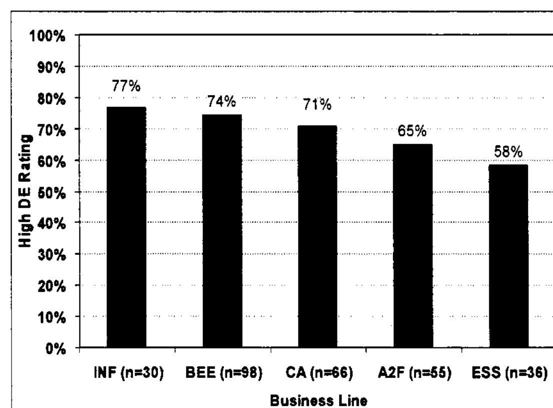
ness lines. It is therefore doubly important that IFC learns lessons from these experiences, including through more robust lesson capture in PCRs, to improve its contribution to sustainable development.

Figure 38. Strategic relevance was often rated high, impact achievement much less so



Note: Excludes cases where it was too early, or data were insufficient, to discern performance.[94]
Source: Independent Evaluation Group (IEG) PCR Review data

Figure 39. ESS project ratings have lagged those of other business lines



Note: Excludes cases where it was too early, or data were insufficient, to discern performance.
Source: Independent Evaluation Group (IEG) PCR Review data

125. In one case, an African FI in which IFC had an existing investment, IFC designed a project to improve the environmental due diligence capacity of the 50 loan officers, and to help improve oversight of the company's sub–projects. The project had to cancelled due to lack of client buy–in (the client did not see the fit between the project and their bottom–line/competitive advantage), and funds were returned to the donor. This shows the importance of client commitment, but also the challenges encountered when IFC tries to persuade clients that environmental and social sustainability is a worthwhile pursuit. Lack of local IFC E&S presence seems to have been a limiting factor.[95] Box 9 provides other examples of low development impact, across different business lines.

Box 9. Illustrations of low development impact

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

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

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

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

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

126. For those product lines with 10 or more ratings, performance was highest for SME linkages work in the agribusiness, extractive and manufacturing sectors (100 percent, much higher than for non–investment linked value chain work) and lowest for Corporate Advice – Other (59 percent) (Table 15). Since product maturity is based partly on achieved results, this may imply that Linkages projects should graduate from 'in developed' to 'developed' product status. The ratings also seem to endorse

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

127. By region, SECA operations were rated significantly higher than other regions (Figure 40), while those in LAC (and a small number of global operations) lagged significantly. All business lines in SECA other than A2F were rated highly, with performance especially strong in Serbia and Macedonia. Meanwhile, multi–region operations related to A2F projects were mostly rated low, while relatively low ratings in the ESS business line (where projects were spread thinly, across 10 countries) pulled down LAC's overall performance.

Figure 40. By region, SECA operations achieved the best ratings, multi–region and LAC the weakest

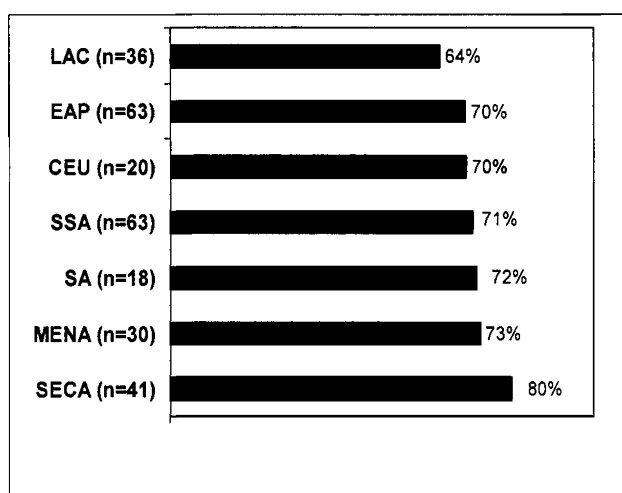


Table 15: Selected ratings, by Product

Rank	Product	Classificat–ion	Business Line	% High
1	SME Linkages (with IFC Inv)	In Devt.	CA	100%
2	INF – Other	Other	INF	90%
3	Industry–Specific BEE	Entry	BEE	82%

Rank	Product	Classificat–ion	Business Line	% High
8	Non–(IFC) Investment Linked Value Chain / Sector Work	Exit	CA	64%
9	Investment Policy & Promotion	Developed	BEE	61%
10	CA – Other	Other	CA	59%

interaction with, and leverage over clients to implement changes recommended by AS in the case of loans. On the investment side, more than half of equity investments (57 percent) achieved high development outcome ratings, in spite of low AS ratings[97]; and

- Where AS was sequenced, rather than one–off (Figure 44);

(viii) Client commitment/buy–in: Better ratings where the client contributed some or all of the costs of the project, which is an indication of commitment (Figure 45). This effect is particularly pronounced for ESS operations, where projects with no client contributions achieved high ratings in only 44 percent of cases, compared to 70 percent of cases where there was a client contribution.

(ix) Sound project design:

- Realistic objectives and timetable;
- Tailored to local conditions (a possible problem with multi–region offerings and ESS operations, many of which are managed from headquarters);
- Clearly defined exit strategy.

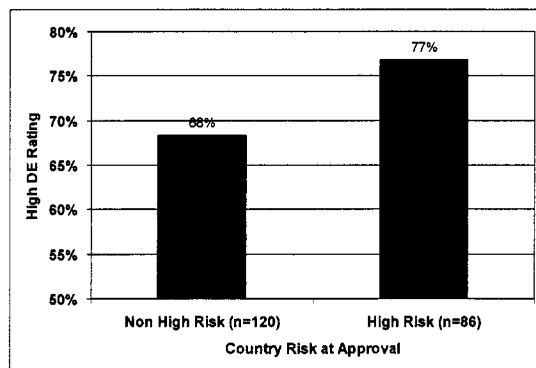
(x) Effective project implementation:

- Good mix of global and local expertise, with locally–based TL (Figure 46);
- Good quality consultants (where used);
- Effective cooperation with World Bank and others;
- Implemented on schedule, i.e. without delay;
- Flexibility to respond to country and market needs.

(xi) Strong IFC role and contribution (Figure 47), which was especially noticeable for BEE projects in high risk IDA countries[98]; and

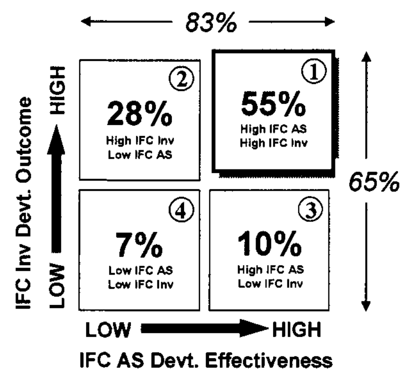
(xii) High M&E Quality, from approval to completion (Figure 48).

Figure 41. Country Conditions: Better Ratings where Country Business Climate Risk is High



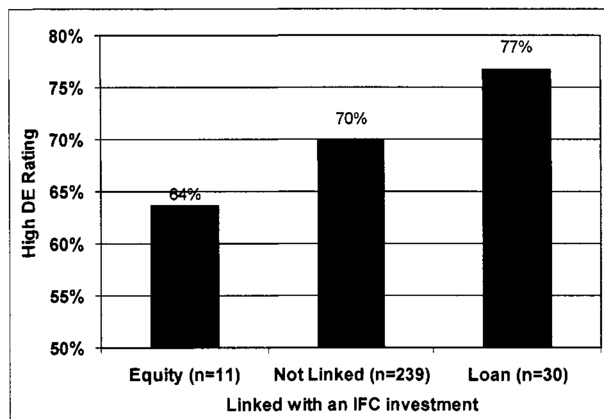
Note: Excludes multi–region projects, and projects with no country business climate risk data; where no DE rating was possible.
Source: Independent Evaluation Group (IEG) PCR Review data

Figure 42. The overall relationship between AS and IS performance is moderate



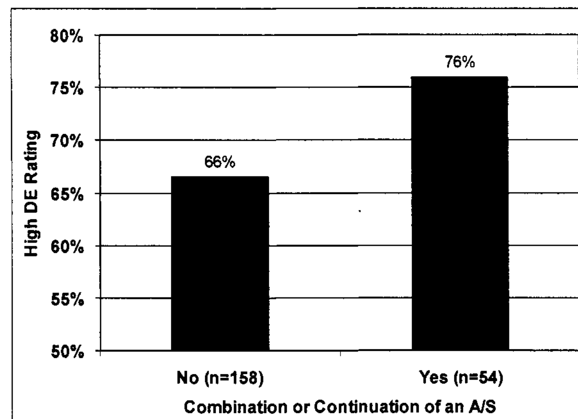
Note: Based on 30 instances of AS and IS with the same client, for which performance data for both AS and IS were available.
Source: Independent Evaluation Group (IEG) PCR Review data

Figure 43. Better AS ratings when combined with IFC loans rather than equity



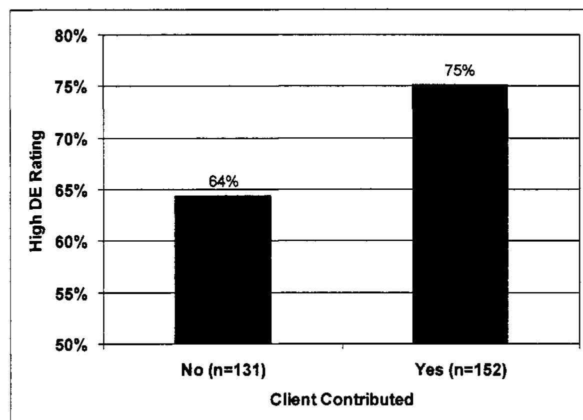
Note: Excludes projects where no DE rating was possible, and five cases where there were both equity and loan investments.
Source: Independent Evaluation Group (IEG) PCR Review data

Figure 44. Stronger Performance in Repeat or Combined AS operations



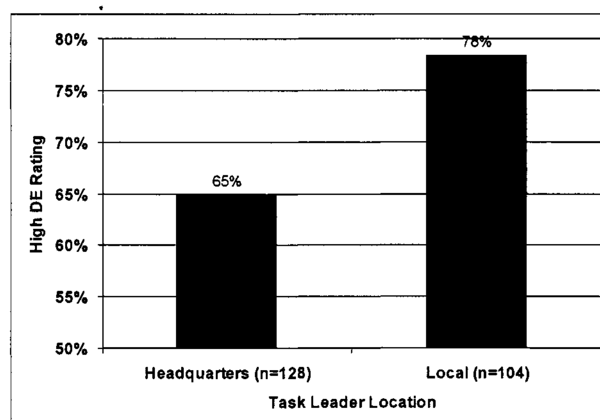
Note: Excludes projects where no DE rating was possible.
Source: Independent Evaluation Group (IEG) PCR Review data

Figure 45. Client Commitment: Better Ratings When Client Contributed



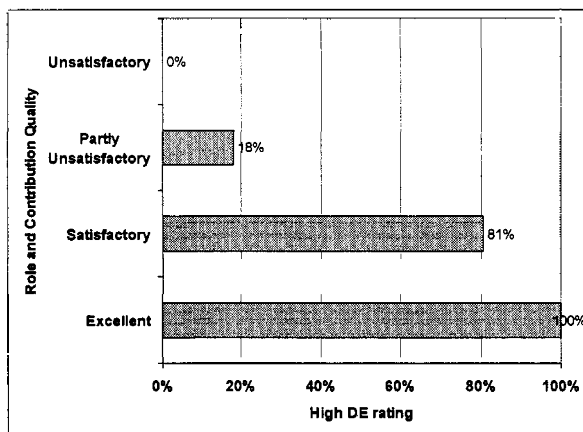
Note: Excludes projects where no DE rating was possible, and where contribution data was not available.
Source: Independent Evaluation Group (IEG) PCR Review data

Figure 46. Project Implementation: Locally–based TL Is Associated with Better Results



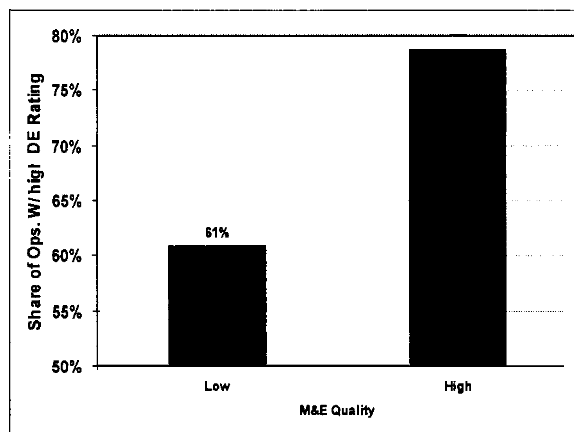
Note: Excludes projects where no DE rating was possible, and where task leader location was not available.
Source: Independent Evaluation Group (IEG) PCR Review data

Figure 47. Higher Role & Contribution, Better Ratings



Note: Excludes projects where no DE rating was possible.
Source: Independent Evaluation Group (IEG) PCR Review data

Figure 48. M&E quality: Better M&E, Better Ratings



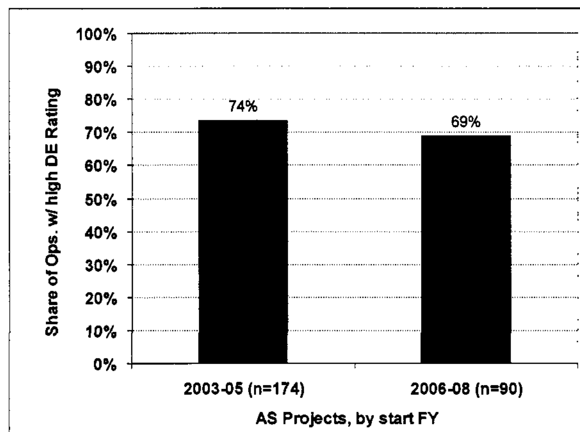
Note: Excludes projects where no DE rating was possible.
Source: Independent Evaluation Group (IEG) PCR Review data

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

130. As the M&E system evolves in the coming years, and more data become available, IEG will be seeking to confirm the statistical significance and relative influence of various drivers that might emerge. The associations presented in the figures above are significant, in binary terms,[99] but further analysis is needed as the quality of the database improves to continue testing the robustness of these relationships.

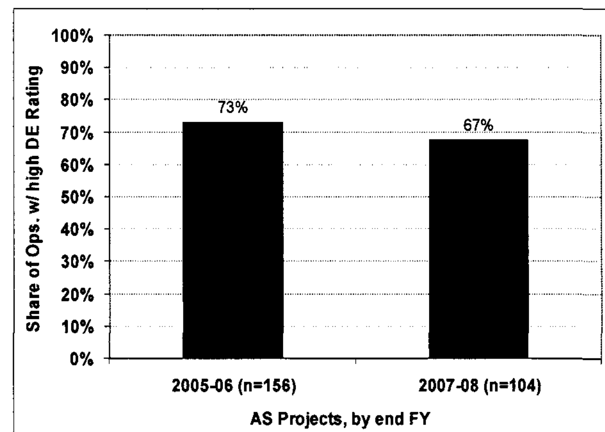
131. IEG did not find significant associations between, development effectiveness ratings and a number of other variables: IDA vs. non–IDA operations (although performance was better in those that exhibited high country risk), separating out operations with government clients (suggesting capacity constraints were not a limiting factor), frontier vs. non–frontier countries; conflict–affected vs. non conflict–affected countries; the level of maturity of a product, i.e. whether it was entry, in development, developed, exit, or other; project size.[100] Importantly, the review found no significant difference in the performance of AS projects started before or after the organizational changes that were initiated in 2005/06 (Figure 49). By completion year, ratings were slightly lower for operations completed in 2007 and 2008 (Figure 50).

Figure 49. Similar performance for projects that began between 2003–05 and 2006–08



Note: Excludes projects that began prior to 2003
Source: Independent Evaluation Group (IEG)

Figure 50. Slightly lower performance for recently completed operations



Note: Excludes projects completed prior to 2004.
Source: Independent Evaluation Group (IEG)

132. If future data should hold up the above associations, there could be several general implications for IFC's future strategy and service delivery. First, it may be more effective for IFC to focus its AS on high investment risk countries (not just IDA), preparing the ground for private investment. Second, longer–term, programmatic approaches have potential for greater impact, but equity/AS combinations, as currently formulated, seem to lack leverage (IFC can impose more conditions in the case of loans). Third, IFC additionality is paramount for development effectiveness. Fourth, effective pricing can enhance results. Fifth, strong project design, with local implementation, is fundamental. Sixth, M&E is not an afterthought, but matters in enhancing results prospects.

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

134. Are there any implications for IFC's crisis response? The 458 reviewed operations were implemented by 2008 and were not affected by a major developing country crisis. Also, IFC AS was much more limited in scope at the time of previous crises. However, we do have some evidence from such episodes. In some prior crises, IFC AS was paired with investments. IFC's banking investments, for example, were often accompanied by extensive AS programs. Their goal was to help the banks implement a re–engineering and corrective action program, upgrade their practices, systems and technologies to international standards, and improve their internal audit functions and management information systems. A lesson learned in that experience was the importance of determining the true level of client commitment to improving corporate practices, although this may be difficult to assess in a crisis situation. In Russia, for example, an IFC AS program was implemented under the auspices of the World Bank's Financial Sector Development Project. The program was expected to result in considerable transfer of technology and international best practices to a Russian–owned operation, aimed

at increasing its efficiency, improving service to clients, and helping to develop local managers and staff. In the event, the advisory services program was not successful, as the Russian bank lacked true commitment, undertaking it more in order to give IFC the assurances required to obtain loan financing.

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

IFC Additionality

136. Various evaluative sources (client interviews, client and donor surveys, and project evaluations) point to the following as possible IFC additionalities, vis–à–vis most commercial knowledge service providers in developing countries: i) Global knowledge / best practice awareness; ii) Technical expertise in a certain business or product line (e.g. INF PPPs, ESS, and Corporate Governance); iii) Neutral broker/ convener / advocate role; iv) Combination of Advisory Service and Investments; v) Having an investment perspective; vi) Ties to the World Bank, in particular for macroeconomic policy capacity; and vii) IFC's brand, or reputation. Box 10 offers some illustration of IFC additionality.

Box 10. Illustrations of IFC Additionality

Below are some illustrations of different kinds of IFC additionality:

Global Knowledge/best practice: IFC shared its corporate governance expertise in other developing countries by advising on the formation of an Institute of Directors (IoD) in a southern African country. In its first year, the IoD attracted over 100 members, and is now operating on a sustainable basis. According to the client, IFC 'provided examples illustrating how countries that adopted strong corporate governance laws and supported companies' efforts to implement these reforms resulted in economic benefits…their evidence convinced skeptics that better companies lead to better societies.'

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

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

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

139. Since there is no market test of value, as with most investments (where the client can choose a cheaper source of finance), how can we determine whether IFC delivered additionality in its AS? And with what impact? At the project level, IEG has found, ex–post, IFC's role and contribution to be satisfactory in most cases – making contributions that may otherwise have not been delivered. IFC was judged to have played an essential role in only 14 percent of cases, and either played an insignificant role or was not plausibly additional in 17 percent of cases. Most of the time (69 percent of cases), IFC role and contribution was rated as satisfactory (see Box 11 for rating criteria). Achieving the highest level of IFC additionality is crucial, not only in ensuring that IFC does not crowd out commercial providers, but also in enhancing impact. As Figure 47 showed, the effect on development effectiveness of excellent role and contribution, rather than satisfactory and especially unsatisfactory role and contribution, is significant. By country type, additionality was rated higher for projects carried out in frontier countries, which probably goes some way to explaining better project results in high risk countries, but was not any stronger for 'developed' products (e.g. business simplification; PPI advisory mandates), providing further evidence that product classifications might need to be revisited.

Box 11. How is IFC Additionality rated?

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

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

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

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

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

140. Evaluation highlights the value of IFC taking a programmatic approach to its AS interventions. In the MENA region for example, IFC worked with a number of countries in developing their national corporate governance codes. IFC ran workshops, covering all aspects of code preparation from content development and implementation to monitoring adoption, and also provided post–workshop advice to assist in drafting the codes. The program began with the intention of contributing to the drafting of three national codes. Ultimately, nine codes were drafted and passed in six counties, with another five in the process of being adopted. The program took on its own momentum, driven by a repu-

tation for technical expertise and professionalism, as well as a sensitivity to local needs and conditions. In another case, well sequenced AS and investment activities helped develop the housing mortgage market in the Russian Federation.[101]

Comparing IFC AS: Results of Others Delivering Knowledge Services

141. At present, there are no international good practice standards for the evaluation of PSD–related AS, and M&E systems are generally not as advanced as the one in IFC (notwithstanding the implementation issues discussed above). As a consequence, it is current not possible to directly compare IFC's AS performance with that of other organizations. Given that IFC's M&E system is generally more advanced than that of other development institutions, at least in principle, IFC is well placed to lead efforts to improve and harmonize M&E standards – for instance, through the further elaboration of the Common Performance Assessment System, established in 2005 by six MDBs (including IFC) to report performance on a range of key performance indicators. And this year, it is considering PSD AS indicators for the first time.[102] Meanwhile, IEG is working with other MDBs to develop good practice standards for PSD AS evaluation in the PSD Evaluation Cooperation Group.

142. While direct comparisons of performance are not yet possible, some common lessons do emerge from independent evaluations that have been carried out of EBRD, ADB, the EC and IBRD/IDA AS activities. The evaluation findings are broadly consistent with IFC experiences discussed in this report: i) Broader and more sustainable results are obtained from interventions at the macro and meso level rather than the micro level. Firm–level support is low in outreach, which makes it difficult to achieve broader PSD impacts beyond the beneficiary firms; ii) Interventions at all levels need to be targeted at local market deficiencies identified by an assessment of the actual conditions on the ground. Some progress has been made in developing tools for assessing the business environment, but more needs to be done to develop methodologies for assessing the quality of institutions and the functioning of markets; iii) Interventions to improve the business environment should be encouraged, as long as there is sufficient government commitment. Support to intermediary organizations can be a way of influencing public policy for the private sector; iv) Long term support, or short term support within broader programs, leads to better and more sustainable outcomes; v) Despite the fact that there is no one–size–fits–all approach to PSD interventions, it is important to adopt a methodical procedure for selecting areas of intervention in a country, including: a critical assessment of the priority areas of interventions, selecting an area in which the donor has a comparative advantage, and an assessment of whether the pre–conditions for intervening in a given area have been met; vi) Client ownership, involvement of local actors, and building of institutions in recipient countries on the basis of the transfer of regulatory, facilitation and intermediation competences is a necessary condition for sustainability. Further detail on the findings of these evaluations is provided in Annex 10.

CONCLUSIONS AND RECOMMENDATIONS

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

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

Conclusions

Financing Development

145. Concerning IFC's efforts to finance development, the review found that project development results (along with IFC financial returns) improved overall between 2006 and 08. However, performance in Africa, Asia and MENA, and in non–telecommunications IT, continued to lag. FI environmental and social effects ratings remained weak, reflecting continued client and IFC weaknesses. World Bank group impact in these regions will be vital in the coming years. Environmental and social impact will be critical in view of the mounting difficulties in these areas.

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

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

148. Among IFC's strategic sectors, project performance showed continued improvement in health and education, was better in agribusiness, remained strong in infrastructure and financial markets, and

lagged in non–telecommunications information technology (software and internet).[103] In other sectors, oil, gas, mining and chemicals projects achieved relatively poor ratings. Risk exposure was a clear factor in weak non–telecommunications IT projects, most of which were small operations involving inexperienced sponsors and unclear product competitiveness. However, work quality was also well below par: high in just 40 percent of cases. Strong IFC work quality was in evidence in the health sector, where the Corporation showed that it had learned lessons from past experience, although the portfolio has had less diversity than envisaged. In oil, gas, mining and chemicals, projects did not meet benchmarks for a number of reasons: sponsor technical weaknesses; higher than expected asset acquisition cost, and one case of poor environmental compliance. Environmental and social effects ratings were stable for real sector projects, but remained weak in FI operations, reflecting a need to focus on strengthening client capacity and securing commitment, while addressing shortfalls in IFC additionality.

149. Given the current global financial crisis (an extreme exogenous risk), projects in early implementation are expected to be hardest hit, in development terms. Such projects represent around 40 percent of IFC's outstanding portfolio (62 percent by volume), thus downside risk to IFC's development 'return' is substantial. Going forward, strong IFC work quality and additionality will be required (e.g. in making well timed, catalytic, new investments, providing corporate finance, acting as an honest broker in restructurings, and helping to improve governance and regulation).

Knowledge for Development

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

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

152. Available results data suggest better performance in SECA, weaker performance in LAC (prior to a recent reorganization) and for global projects; and a strong association between country conditions (including the pursuit of AS activities in high risk countries), delivery quality, and results. Additionality is fundamental for better performance, and may be enhanced by some – though not all – combinations with IFC investments (e.g. better ratings when combined with loans, and for second generation

linkage projects in agribusiness and manufacturing). More benchmarking may be helpful. At all stages of delivery, M&E data provided by staff and consultants (in particular) has remained unreliable. Relatedly, IFC–commissioned reviews of AS facilities, products and projects, while offering insights on the organization and delivery of AS, have exhibited shortcomings in independence and design.

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

Recommendations

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

Operations during the Crisis:

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

Role in Advisory Services:

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

- **Pursue more programmatic AS interventions.** Evaluation shows that IFC has achieved better results in AS projects that have been carried out in conjunction with other AS interventions. One–off activities have been less effective. However, programmatic efforts of this kind have been in the minority (about a fifth of all AS projects), and IFC should accordingly seek to expand this type of intervention.
- **Improve execution of the AS pricing policy.** Over the longer term, it would be important to seek client contributions that reflect value and impact, i.e. not just cost, to create a true test of client demand, incentives for better AS delivery, and ensure IFC is being additional.
- **Strengthen AS performance measurement and internal knowledge management.** In the short term, it would be important to have more hands–on M&E support in the field, post–project completion follow up, capturing of lessons from dropped or terminated projects, and more arms–length facility, product and project reviews. In the medium term, it would pay to introduce an XPCR system (akin to the XPSR system for investment operations, and carried out later than the PCR to better capture impacts), more programmatic impact evaluation and impact research, setting results–based targets for AS in its corporate scorecard, and regular benchmarking of IFC AS activities and systems with other providers of knowledge services, including other multilateral development banks and commercial providers. In the longer term, the aim could be to establish a specialized research unit focusing on generating and bringing together private sector development knowledge work.

Notes:

[1] IFC, Founding Article 1.

[2] *Using Knowledge to Improve Development Effectiveness: An Evaluation of World Bank Economic and Sector Work and Technical Assistance*, 2000-06, Independent Evaluation Group, 2008.

[3] At early operating maturity, operations have generally recorded at least 18 months of operating revenue, which is typically five years after approval.

[4] Around $30 billion, including funds from co-financiers. IFC's investment share in a project is typically a quarter.

[5] These result patterns across regions and sectors are broadly consistent with IFC's own self-assessments, although with some optimism bias in self-ratings, which were on average 5 percent higher than those assigned by IEG.

[6] In many country offices, outside regional hubs, IFC Advisory Services staff significantly outnumber investment officers and are the face of the Corporation in the country.

[7] For further discussion of the empirical connections between knowledge and development, see *Measuring Knowledge in the World's Economies*, World Bank Institute, 2008.

[8] World Bank database.

[9] World Bank database.

[10] World Bank database.

[11] Again, this figure increases a little if advice in the 'Financial and Private Sector Development' area is included.

[12] See *Measuring Knowledge in the World's Economies*, World Bank Institute, 2008.

[13] Source: 2007 Annual Reports.

AFDB: Private sector approvals in 2007 rose to UA 1 billion (1.67 total approval volume) so the share of private sector investments reached to 60 percent, compared with UA 278.5 million in 2006 (1.05 total volume), or 47 percent of total lending.

ADB: In 2006 ADB adopted a new medium strategy, which places catalyzing private sector investment as its highest priority. In 2007, the private sector operations totaled $1.7 billion (out of $10.1 billion), or 17 percent, significantly above recent levels.

EBRD: The private sector share of annual business volume increased to 86 percent in 2007, from 80 percent in 2006.

IDB: During 2007, the IDB approved 17 non-sovereign-guaranteed transactions, consisting of 13 loans and four guarantees, totaling $2.1 billion (out of $8.970 billion) 23 percent of total lending. During 2006, the Bank approved 20 private sector transactions totaling $920 million for projects, or 14 percent of total lending ($6.4 billion). In December 2006, the Board of Executive Directors approved changes to the Bank's basic organization directed at improving the Bank's operational efficiency and capacity to fulfill its fundamental purpose. The changes include the creation of a new Vice President for Private Sector and Non- Sovereign-Guaranteed Operations.

[14] World Bank estimates suggest that between 130 and 155 million people fell into extreme poverty as a result of higher food prices.

[15] See *Global Economic Prospects 2009*, World Bank, December 2008.

[16] See *Global Economic Prospects 2009*, World Bank, December 2008, and *Outlook for Remittance Flows 2008-10*, World Bank, November 2008.

[17] See, for example, Reinhart, Carmen M., and Kenneth S. Rogoff. 2008a. "Is the 2007 U.S. Subprime Crisis So Different? An International Historical Comparison." *American Economic Review* Vol. 98 No. 2: 339–344.

[18] This to some extent reflects the replacement of existing clients with new clients (rather than necessarily a preference for existing clients.

[19] Objectives with trackable data included: whether the project was in an IDA country; in a strategic sector (infrastructure, financial markets, health and education, or agribusiness); or 'south-south' in nature.

[20] The pattern is similar by volume of activities.

[21] In line with the MDB good practice standards of the evaluation of private sector investment operations, this review concentrates on the results of projects that were evaluated in the last three years.

[22] Self-ratings by investment officers were, on average, 5 percent higher overall than those assigned by IEG.

[23] See *Independent Evaluation of IFC's Development Results 2007*, for further details on performance of IFC-supported projects in 2005.

[24] Project evaluations in late 2008 have been able to incorporate the possible effects of the crisis in their going-forward projections, however since these projects were substantially implemented at the time of the crisis (they were approved in 2003), thus the crisis effect is less marked than for projects approved more recently.

[25] See, for example, *Asian Development Bank Annual Report on 2007 Portfolio Performance*, Operations Evaluation Department, Asian Development Bank.

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

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

[28] As a corollary exercise, IEG examined early review documents (PDS-ER) for 42 IFC investment projects that approved in FY2008, and were selected based on a stratified random sample. In its PDS-ERs, IFC prompts Investment Officers to compare the new project with other IFC projects and to provide lessons learned. Ideally, there should be an undertaking to dig into the issues at appraisal, apply appropriate lessons and mitigate risks / issues going forward. IEG found that in each PDS-ER reviewed, IFC suggested a number of lessons to be considered. However, in most cases, the sources of lessons were not provided and explicit comparisons to other projects were not made. In 18 cases (43 percent) other projects were listed, but in only 12 were explicit comparisons made. In many cases, the lessons listed were generic, and in a very few cases unrelated to the project being reviewed. Overall, based on IEG's review, IFC was found to be inconsistent in its identification of comparator projects and review of lessons. Lessons should come from projects with similar characteristics and be referenced accordingly.

[29] The evaluated sample was small (six projects), but the ratings were generally consistent with those determined in a recent health sector study carried out by IEG, which also found an improving trend in sector performance.

[30] See *Improving Effectiveness and Outcomes for the Poor in Health, Nutrition and Population: An Evaluation of World Bank Group Support Since 1997*, IEG 2009

[31] See Sharpe, William, Gordon Alexander and Jeffery Bailey, 1995, Investments, Prentice Hall, New Jersey, especially Chapters 8, 11 and 25.

[32] IEG evaluates IFC's E&S work quality in a project (appraisal, supervision, and role & contribution) separately from IFC's overall work quality.

[33] As opposed to an explicit trade-off between profitability and project development impact.

[34] The Asian crisis, for example, can be isolated as a primary reason for the significant deterioration of development, business and investment outcomes for projects approved in the mid-1990s.

[35] Of 37 projects approved in the three years following a crisis in major MICs (Brazil, Indonesia, Korea, Mexico, the Philippines, Russian Federation, and Turkey), 67 percent achieved high development results (compared to 61 percent otherwise). Projects in Brazil, Korea, and Russian Federation were particularly successful. In contrast, the performance of the 96 evaluated projects that were already underway when a crisis hit (in Argentina, Brazil, Indonesia, Mexico, the Philippines, Russian Federation, Thailand, Turkey, and Uruguay) were much weaker. Of these projects, 54 percent achieved high development outcome ratings, compared to 64 percent for non-crisis exposed projects.

[36] This is the share of active investment approvals between 2005-07 (704 projects with $20 billion net commitment), relative to the active projects in portfolio at June 2008 (1716 projects with $33 billion net commitment).

[37] For further discussion of the empirical connections between knowledge and development, see *Measuring Knowledge in the World's Economies*, World Bank Institute, 2008. See also Giovanni Dosi, David J. Teece, and Josef Chytry (eds.), *Technology, Organization, and Competitiveness: Perspectives on Industrial and Corporate Change*, Oxford: Oxford University Press, 1998.

[38] See, for example, *The Power of Productivity: Wealth, Poverty and the Threat to Global Stability*, W.W.Lewis, University of Chicago Press, 2004. See also Stewart, T.A., *The Wealth of Knowledge: Intellectual Capital and the Twenty-First Century Organization*, Nicholas Brealey, 2001.

[39] For a fuller discussion of respective roles of government and the private sector in knowledge generation and exploitation, see *World Development Report 1998: Knowledge for Development*, World Bank.

[40] See Dahlman, C. and Larry Westphal, 1981. "The Meaning of Technological Mastery in Relation to Transfer of Technology", *Annals of the American Academy of Political and Social Science*, no 458,(Nov): 12:26 for more on how markets are imperfect institutional devices for facilitating trading in many kinds of technological and managerial know-how.

[41] See Contractor and Nejad, 1981, International technology Transfer: Major Issues and Policy Responses, *Journal of Inteernational Business Studies*, vol. 12 No 2, pp 113-135,

Arrow, K. (1971). *Essays in the Thleory of Risk Bearing*. Markham, Chicago, IL., McCulloch, Rachel, 1981, "Technology Transfer to Developing Countries: Implications of International Regulation" *Annals of the American Academy of Political and Social Science*, Vol. 458, Technology Transfer: New Issues, New Analysis (Nov., 1981), pp. 110-122.

[42] *Using Knowledge to Improve Development Effectiveness: An Evaluation of World Bank Economic and Sector Work and Technical Assistance*, 2000-06, Independent Evaluation Group, 2008.

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

[44] Out of a population of 1,920 managers and staff, covering IFC investment operations, IFC Advisory Services, as well as WB Country Directors, Managers and PSD specialists.

[45] Out of a population of 707 project completion reports, a coverage rate of 65 percent. See Annex 7 for further details on sample representativeness.

[46] It should be noted that in FY07, IFC's investment commitments made up around a half of MDB financing for private sector operations in developing countries.

[47] See *IFC Road Map*, FY09-11, and IFC Strategic Directions, FY08-10 and FY07-09.

[48] In FY08, IFC provided $11.8 million, MIGA $4 million (for Investment Policy and Promotion activities), and the World Bank $2 million.

[49] In FY08, IS employed 1538 staff, and 706 consultants. IS consultants also tend to be paid considering more than those used for AS, implying that they are brought in to carry out tasks that require greater skills and experience.

[50] At a more general level, the Global Most Admired Knowledge Enterprises (MAKE) rankings considers and ranks organizations according to factors that include organizational learning, innovation, and creating a corporate knowledge driven culture, in 2008 showed McKinsey, Google and Royal Dutch Shell to be the strongest performers. MAKE Winners typically outperform their peers in a number of familiar business indicators, such as shareholder return (by an approximate ratio of 2:1).

[51] Prior to this time, organization of AS was somewhat ad-hoc, and dependent on how each facility was set up. In 1997, for example, IFC's AS work was described as either: feasibility and pre-feasibility studies; project identification studies; strengthening the enabling environment for private sector development; and capacity building for private businesses and government officials.

[52] See the *Independent Evaluation of IFC's Development Results 2007*, Independent Evaluation Group, 2007.

[53] Regional facilities and global business units are also referred to as Donor Funded Operations.

[54] Additionally, some business lines have stronger links with Washington. Staff working on Infrastructure Advisory Mandates, for example, tend to have closer ties to Washington and to the investment stream than to other Advisory business lines – and projects can sometimes proceed without much engagement with the main regional facility.

[55] ***Entry*** – new products / approaches being introduced / tested in single clients / single markets with no or limited results measurement to date. IFC also may have limited internal expertise in this product area at entry but must have a senior IFC staff person identified as the leader of this work. Products should not remain in the Entry category for more than 24 months or 2 subsequent Product Reviews. Products may move from Entry to In Development, Entry to Other, or Entry to Exit. Products that are currently in the Other category may move to Entry if there is broad implementation or plans to replicate across multiple regions.

In-Development – products that have growing demand, high potential for scaling up and replication across markets, and have some results that provide evidence to continue IFC's investment in and delivery of such products. IFC should have some in-house expertise in this area. Products should not remain in the In Development category for more than 36 months or 3 subsequent Product Reviews. Products may move from In Development to Developed, In Development to Other, In Development to Exit. Some products currently in this category may require longer to mature. In such cases the products should be moved into the Entry category which did not exist in the original product review. This would give the product up to 5 years to reach Development.

Developed – products that have been scaled up and replicated across at least three regions and have undergone some form of rigorous results measurement activity such as experimental or quasi experimental design conducted by an external party. The results support continued work in these areas and new projects should reflect lessons learned in the design. These products should be appropriate for implementation in frontier markets and IFC should have highly experienced, senior staff leading product development in these areas. Products may remain in this category for an indefinite period of time. Products may move from Developed to Exit.

Exit – Products will be moved to the exit category for a variety of reasons. Some may exit as demand and donor/partner interest declines signaling that the key work has been completed, or priorities are shifting to other areas. Similarly IFC may exit a product when other parties become available to provide the same product as well or better than us or when IFC no longer has sufficient competence in the area (e.g. loss of product leaders / specialists). Other products may be exited based on our inability to achieve desired results, cost recovery and/or scale / efficiency.

Other – This category will is for idiosyncratic products that are appropriate to a particular country / market at a given point in time but are not expected to reach scale or be replicated broadly. Products may remain in the "Other" category for an indefinite period of time as long as desired results and cost recovery are achieved and the product is

NOT implemented in more than 2 regions. Applying this definition to current products will result in movement of several products from this category to Entry or Exit.

[56] The 1997 IFC Annual Report, somewhat less specifically, defined IFC's AS products as either: feasibility and pre-feasibility studies; project identification studies; strengthening the enabling environment for private sector development; and capacity building for private businesses and government officials.

[57] Two notable exceptions were IEG reviews of four SME facilities in 2005, and the IEG review of the Private Enterprise Partnership in 2007. The review of the Africa Project Development Facility contributed to the understanding that working directly with a small number of SMEs was relatively costly and that it would generally be more efficient to work with a larger number of SMEs on more of a wholesale basis.

[58] Prior to 2006, different facilities and business units had their own, separate M&E approaches and systems.

[59] It should be noted that no new approvals are permitted for products placed in the 'Exit' category.

[60] See http://www.oecd.org/document/18/0,3343,en_2649_3236398_35401554_1_1_1_1,00.html for full declaration. In September 2008, a High Level Forum of Ministers from over 100 countries, heads of bilateral and multilateral agencies, donors and many international solidarity organizations was convened in Africa to follow up on the Paris Declaration. Among other things, the forum concluded that aid fragmentation remained a major challenge, and that aid partnerships should be encouraged, in line with the Paris Declaration principles.

[61] It should be noted that BLLs are not invited to take part in developing CASs.

[62] Based on a review of publicly available strategies, evaluation reports, and interviews with representatives of: [add]

[63] The 248 projects were selected for review by stratified random sampling, excluding from the population approval documents for which the 'IFC role' section was not completed (typically small, one off workshops and seminars, or internally oriented projects).

[64] IFC Advisory Services , Presentation to Executive Directors December 2008,

http://advisoryservices.ifc.org/uploads/documents/20081210T132902_AS%20to%20EDs%20Dec%2008%20v5.ppt

[65] Based on expenditures at June 2008, overall leverage of IFC : donor funds was approximately 1:1.5.

[66] See *IFC Advisory Services in Eastern and Central Asia: An Independent Evaluation of the Private Enterprise Partnership Program*, Independent Evaluation Group, 2007, for a more detailed discussion of the pros and cons of this funding approach.

[67] An example of procedural constraint is the need for a government to put out a competitive tender for a service it is paying for, no matter how small in value.

[68] 11 percent in the former, as opposed to 2 percent in the latter.

[69] See *Enhancing the Impact of Fund Technical Assistance*, Office of Technical Assistance Management, International Monetary Fund, April 2008.

[70] See, for example, PEP-ECA study.

[71] It should be noted that the LAC region has introduced project approval decision meetings, similar to that used for BEE, involving Bank staff and peer reviewers. This approach has been applied in recent months to the CA and ESS business lines.

[72] *IFC Advisory Services in Eastern and Central Asia: An Independent Evaluation of the Private Enterprise Partnership Program*, Independent Evaluation Group, 2007.

[73] It should be noted that the Infra BL appears to the exception in this sense.

[74] The impact evaluations that have been carried out, or have recently been commissioned, typically had one of two aims: (1) to evaluate pilot projects prior to roll-out and replication, and (2) to evaluate projects that require testing several approaches to identify which is most effective.

[75] The latter included as a quality dimension since 2008.

[76] IFC's Results Measurement Network's own quality review in early 2008, of supervision and completion documents for projects approved between December 2005 and December 2007, had similar findings: barely a half of supervision documents evidenced clear understanding of outcomes and impacts, with persistent problems being lack of baseline data reporting, limited data tracking, and low use of standardized indicators; and weak data/evidence to support completion report ratings, frequent use of 'too early to tell' when outcomes could have been observed, and overoptimistic development effectiveness ratings.

[77] Building on this definition and drawing on the good practice standards of official audit and evaluation agencies, four dimensions of evaluation independence have been recognized by the MDB Evaluation Cooperation Group (ECG):

(i) *organizational independence* - Organizational independence ensures that the evaluation unit and its staff are not under the control or influence of decisionmakers who have responsibility for the activities being evaluated and that they have full access to the information they need to fulfill their mandate

(ii) *behavioral independence* - Behavioral independence measures the extent to which the evaluation unit is able and willing to produce high quality and uncompromising reports and to disclose its findings to the Board without Management imposed restrictions.

(iii) *protection from outside influence* - - Protection from outside influence refers to the evaluation unit's ability to decide on the design and conduct of evaluations without interference; its control over staff hiring, promotion and firing within a merit system; and its access to adequate resources to carry out the mandated responsibilities effectively

(iv) *avoidance of conflicts of interests* - Avoidance of conflicts of interests guarantees that current, immediate future, or prior professional or personal relationships and considerations are not allowed to influence the evaluators' judgments or create the appearance of a lack of objectivity. Specific criteria were developed by the ECG to measure the degree of independence along these four dimensions

[78] It is ultimately a decision for IFC management on how to allocate its resources for impact evaluations, but care needs to be taken not to overexamine some topics and leave others underresearched. In an ideal setting, as IEG's *Annual Review of Development Effectiveness 2008: Shared Global Challenges* pointed out, the decision to fund impact evaluations in a given area would take into account the following five criteria: i) the value of answering the question in terms of benefits and costs of a specific project, ii) the value of answering the question for other current or future projects, iii) the cost of the evaluation, iv) the innovative nature of the project, and v) the likely feasibility of designing a convincing impact evaluation.

[79] See IEG's *Biennial Report on Operations Evaluation 2008* for a more detailed discussion of the quality and coverage of M&E systems in IFC, including at the programmatic level.

[80] For the full IFC Corporate Scorecard, see *IFC Road Map, FY09-11*.

[81] In the latter case, the development interests of donors (external or internal) and IFC IS are typically well aligned, although as an investor IFC will also need to consider balance sheet impact, which poses a COI risk if such interests supersede development goals.

[82] As of January 1, 2009, IFC has its own independent Conflicts Office, which has issued IFC-specific Directives and Guidelines to address AS/Inv business conflicts.

[83] For general illustration of the benefits and costs of cooperation, see *WBG Cooperation: Evidence and Lessons from IEG Evaluations*, 2009.

[84] The PEP-ECA study found a similar pattern.

[85] See *WBG Cooperation: Evidence and Lessons from IEG Evaluations*, 2009, for a broader discussion of cooperation incentives.

[86] See, for example, the *Independent Evaluation of IFC's Development Results 2007*, Independent Evaluation Group, 2007.

[87] The scope of the review did not extend to private consultancy firms involved in the delivery of knowledge services in developing countries, such as PwC and DAI.

[88] These include a one off look at the AS market in 2007; and benchmarking of IFC linkages operations.

[89] For more detail on patterns in official aid flows, see *Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows*, World Bank, May 2008.

[90] 21 of 64 cases.

[91] The share of projects without development effectiveness and impact ratings is fairly consistent across business lines.

[92] A large proportion of ratings of *cannot tell* reflects frequent changes of indicators during project implementation in most business lines as a result of M&E staff efforts to standardize indicators. It has been observed that Task Leaders abandoned the initial set of indicators, often set intuitively to reflect the project goals and objectives and adopted newly established standard indicators which either could not be measured, given that the change occurred during implementation, did not have baseline data, or did not appropriately reflect the goals of the specific project. Although standardization of indicators is desirable, in cases it led to confused reporting of project results.

[93] This issue was first raised in IEG's FY2002 Annual Review, which was completed and submitted to CODE in early 2003, and has been a recurring theme in IEG annual reviews since then. See, for example, the *Independent Evaluation of IFC's Development Results* 2007 and 2008.

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

[95] The majority of ESS operations have been managed from headquarters.

[96] Seventy-nine percent of BEE operations in high risk IDA countries, which made up nearly a half of reviewed operations in these countries, were rated high on development effectiveness.

[97] Based on IEG and DOTS data.

[98] In these cases, IFC role and contribution was rated high 95 percent of the time.

[99] Using t tests of statistical difference, at a 95 percent level of confidence.

[100] It should be noted that size was found to be an important explanatory variable in the case of PEP-ECA.

[101] For further elaboration, see *IFC Advisory Services in Eastern and Central Asia: An Independent Evaluation of the Private Enterprise Partnership Program*, Independent Evaluation Group, 2007.

[102] Other MDBs involved are ADB, AfDB, EBRD, IDB, and IsDB,

[103] These result patterns across regions and sectors are broadly consistent with IFC's own self-assessments, although with some optimism bias in self-ratings, which were on average 5 percent higher than those assigned by IEG.

ANNEXES

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Annex 1: Project Sample Representativeness – Investment Operations

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

	Number of Investments					Value of Investments ($ million)				
	CY2006-08 XPSRs (a)		*CY2001-03 NAP (b)*		*(c) = (a)/(b)*	*CY2006-08 XPSRs (a)*		*CY2001-03 NAP (b)*		*(c) = (a)/(b)*
	No.	*%*	*No.*	*%*	*%*	*Amt.*	*%*	*Amt.*	*%*	*%*
	178	*100*	*349*	*100*	51	3679	*100*	7340	*100*	50
Net IFC:										
Mean	-	-	-	-	-	21	-	21	-	-
Median	-	-	-	-	-	12	-	12	-	-
Investment Size:										
X=<4.04	36	*20*	72	*21*	50	70	*2*	156	*2*	45
4.04<X=<38.02	114	*64*	220	*63*	52	1700	*46*	3399	*46*	50
X>38.02	28	*16*	57	*16*	49	1909	*52*	3785	*52*	50
	178	*100*	349	*100*	51	3679	*100*	7340	*100*	50
Instruments:										
Equity only	42	*24*	83	*24*	51	568	*15*	982	*13*	58
Other	136	*76*	266	*76*	51	3111	*85*	6358	*87*	49
	178	*100*	349	*100*	51	3679	*100*	7340	*100*	50
Sectors:										
Financial markets	73	*41*	144	*41*	51	1760	*48*	3072	*42*	57
Non-financial markets	105	*59*	205	*59*	51	1919	*52*	4268	*58*	45
	178	*100*	349	*100*	51	3679	*100*	7340	*100*	50
Departments:										
Agribusiness	11	*6*	22	*6*	50	244	*7*	458	*6*	53
Global Financial Markets Group	60	*34*	119	*34*	50	1420	*39*	2438	*33*	58
Global Inform. & Comm. Tech.	15	*8*	30	*9*	50	236	*6*	687	*9*	34
Global Manufacturing & Services	48	*27*	94	*27*	51	830	*23*	1676	*23*	50
Health and Education	6	*3*	11	*3*	55	57	*2*	77	*1*	74
Infrastructure	18	*10*	35	*10*	51	409	*11*	1021	*14*	40
Oil, Gas, Mining And Chemicals	9	*5*	18	*5*	50	194	*5*	429	*6*	45
Private Equity and Investment Funds	11	*6*	20	*6*	55	290	*8*	554	*8*	52
	178	*100*	349	*100*	51	3679	*100*	7340	*100*	50
Regions:										
Africa	15	*8*	32	*9*	47	106	*3*	533	*7*	20
Asia	46	*26*	91	*26*	51	861	*23*	1895	*26*	45
Europe & Central Asia	54	*30*	99	*28*	55	1102	*30*	1764	*24*	62
LAC	48	*27*	97	*28*	49	1450	*39*	2753	*38*	53
MENA	12	*7*	23	*7*	52	126	*3*	275	*4*	46
World	3	*2*	7	*2*	43	35	*1*	121		
	178	*100*	349	*100*	51	3679	*99*	7340	*100*	50
Active/Closed										
Active	104	*58*	199	*57*	52	2502	*68*	4400	*60*	57
Closed	74	*42*	150	*43*	49	1177	*32*	2940	*40*	40
	178	*100*	349	*100*	51	3679	*100*	7340	*100*	50
Indicative Performance:										
(as of 06/30/2008)										
(i) all investments: [a]										
With loss reserves	3	*2*	6	*2*	50	19	*1*	33	*0*	58
Without loss reserves	175	*98*	343	*98*	51	3660	*99*	7307	*100*	50
	178	*100*	349	*100*	51	3679	*100*	7340	*100*	50
(ii) equity only: [a]										
With loss reserves	0	*0*	0	*0*	-	0	*0*	0	*0*	-
Without loss reserves	42	*100*	83	*100*	51	568	*100*	982	*100*	58
	42	*100*	83	*100*	51	568	*100*	982	*100*	58
Countries (excluding regional):	58		74							

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

Source: IEG

Annex 2: Project Evaluation Methodology – Investment Operations

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

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

- ***Project business success:*** In financial market (FM) operations, project business performance measures the project's long-term impact on the financial intermediary's profitability and viability, using the indicators like capital adequacy, asset quality, management quality, earnings performance, and liquidity structure and balance sheet. In non-financial market (non-FM) operations, project business performance measures the project's actual and projected financial impact on the company's financiers, that is, lenders and equity investors. The principal indicator of a project's business performance is its real, after-tax, financial rate of return.
- ***Economic sustainability***: In non-FM operations, this indicator evaluates the project's effects on the local economy, and the associated benefits and costs that are measured by economic rates of return. In addition to the project's effects, subprojects' effects are included in the FM operations' economic sustainability analysis.
- ***Environmental and social effects:*** IFC's Policy and Performance Standards on Social & Environmental Sustainability (2006) consider social and environmental sustainability to be an important component of development outcome quality in the IFC-financed projects. The XPSR's assessment of environmental and social effects should cover: (i) the project's environmental performance in meeting IFC's requirements; and (ii) the project's actual environmental impacts (through sub-projects in the case of FM operations), including pollution loads, conservation of biodiversity and natural resources, and, in a broader context, social, cultural, and community health aspects, as well as labor and working conditions and workers' health and safety.
- ***Private sector development impacts*** (beyond the project): IFC's *Purpose*, specified in Article I, is "encouraging the growth of productive private enterprises", and to that end, IFC shall "seek to stimulate, and to help create conditions conducive to, the flow of private capital, domestic and foreign, into productive investment". This indicator addresses to what extent the company has developed into a corporate role model – positive or negative – and whether the project has contributed to IFC's purpose by spreading the benefits of growth of productive private enterprise beyond the project company.

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

- ***Gross contribution-loan:*** The primary indicator for this rating is whether the borrower is current on its payments to IFC (interest, fees, etc.). It is also important to assess the likely future debt-servicing capacity of the client.

- ***Gross contribution-equity:*** The nominal, equity, internal rate of return (also called return on equity or ROE). The rating criteria for equity investments are based on a comparison of the nominal, equity, internal rate of return with the actual (or notional) fixed-rate, loan interest rate (FR) that was (or would have been) approved for the same.

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

- ***Screening, appraisal, and structuring:*** The extent to which IFC professionally executed its front-end work toward a sustainable corporate performance standard. IFC's operating policies and procedures, as well as its credit notes provide guidance on what IFC considers an appropriate professional standard.
- ***Supervision and administration:*** Supervision, for this purpose, starts after commitment of IFC's funding. To what extent IFC has professionally executed its supervision. IFC's Operational Procedures provide guidance on what IFC considers an appropriate professional standard.
- ***IFC's role & contribution:*** This is measured by how well IFC fulfilled its role in terms of three basic operating principles: (i) Additionality/Special Contribution Principle—"IFC should participate in an investment only when it can make a special contribution not offered or brought to the deal by other investors"; (ii) Business Principle—"IFC will function like a business in partnership with the private sector and take the same commercial risks"; and (iii) Catalytic Principle—"IFC will seek above all to be a catalyst in facilitating private investors and markets in making good investments."

For each of the above principles, a four-point rating scale is used (excellent, satisfactory, partly unsatisfactory, and unsatisfactory), except for the synthesis development outcome rating, which involves a sixpoint scale (highly successful, successful, mostly successful, mostly unsuccessful, unsuccessful, and highly unsuccessful). In IEG's binary analysis, "high" refers to satisfactory or better on the four-point scale, and mostly successful or better on the six-point scale. Specific rating criteria for each indicator are set out in Table 2.

Table 2. Project Performance Indicators and Rating Criteria for IFC Investment Operations

Project Development Outcome

Rating	***Excellent***	***Satisfactory***	***Partly Unsatisfactory***	***Unsatisfactory***
Project Business Success	*Real Sector:* FRR >= WACC + 2.5% *FM:* Project substantially raised the FI's profitability and substantially improved its viability (targeted funding); High overall profitability of the FI expected in the case of newly established FIs (general funding)	*Real Sector:* FRR >= WACC *FM:* Project had a neutral to positive effect on profitability and improved viability (targeted funding); Adequate overall profitability expected (general funding)	*Real Sector:* FRR >= WACC - 2% *FM:* Project returns were sufficient to cover cost of associated debt, but did not provide adequate returns to equity holders or detracted from viability (targeted funding); Expected long-run returns to equity holders don't provide a risk premium over the cost of debt financing (general funding)	*Real Sector:* FRR < WACC - 2% *FM:* Project returns were insufficient to cover cost of associated debt or harmed viability (targeted funding); Expected long-run returns to equity holders less than cost of debt financing (general funding)
Economic Sustainability	*Real Sector:* ERR >= 20% *FM:* Project substantially increased the efficiency of financial markets and/or the vast majority of sub-projects are economically viable and the project has made a substantial and widespread contribution to improving living standards.	*Real Sector:* ERR >= 10% *FM:* Project positively influenced the efficiency of financial markets and/or most of the sub-projects are economically viable as defined by: (a) sub-borrower portfolio quality is better than, or equal to,	*Real Sector:* ERR >= 5% *FM:* Project made no positive contribution to the efficiency of financial markets and/or a large portion of the sub-projects is not economically viable as defined by: (a) sub-borrower portfolio quality	*Real Sector:* ERR < 5% *FM:* Project negatively affected living standards or the efficiency of financial markets and/or the majority of sub-projects are not economically viable as defined by: (a) sub-borrower portfolio quality

		the higher of the rest of the FI's loan portfolio or the market average; (b) the aggregate equity fund portfolio return before management fees is satisfactory ; or (c) more than half of equity fund investees have positive equity returns while aggregate portfolio return before management fees is less than satisfactory but no less than zero.	is worse than the higher of the rest of the FI's loan portfolio or the market average; or (b) more than half of equity fund investees have zero or negative equity returns while aggregate portfolio return before management fees is less than satisfactory but no less than zero.	is worse than both the rest of the FI's loan portfolio and the market average; or (b) the aggregate equity fund portfolio return before management fees is negative.
Environmental and Social Sustainability	*Real Sector:* The project either: (i) maintained the company's excellent environmental management or materially improved the company's overall environmental performance (e.g. through training and addressing environmental, social, cultural and community aspects, as well as labor and working conditions, or introducing an Environmental Management System (EMS) or corporate program for environmental and social responsibility broader than IFC's requirements ; or (ii) raised the environmental performance of local companies (e.g. by raising industry standards and serving as a good practice example for regulators). In addition, the project consistently met IFC's at-approval requirements and environmental effects are deemed acceptable in view of IFC's current requirements. IFC should be able to use projects rated excellent as role models for positive environmental effects. *FM:* The project maintained the FI's excellent Environmental Management System (EMS) or materially improved the efficacy of the FI's overall environmental risk management (e.g. through training and introduction of a well functioning EMS) and the environmental performance of portfolio companies. In addition, the FI has provided transparent and detailed reports on time, verifying that the project (and sub-projects, as applicable) has consistently met IFC's requirements at approval and its environmental effects are deemed acceptable in view of IFC's current requirements. IFC should be able to use projects rated excellent as role models for positive environmental effects.	*Real Sector:* The project is–and was over its lifetime–in material compliance with either IFC's current or at-approval requirements, including World Bank Group environmental, health and safety policies and guidelines. *FM:* The project meets either IFC's at approval requirements or IFC's current requirements and its environmental effects are deemed acceptable overall. For all FI project types, trained staff implement an appropriate EMS that has been functioning over the project life (as reflected also in acceptable environmental standards being applied to projects financed by the FI). The sub-projects are and have been in substantial material compliance with IFC's requirements for the life of the project.	*Real Sector:* The project is not in material compliance with either IFC's current or at-approval requirements, but deficiencies are being addressed through ongoing and/or planned actions; or earlier non-compliance (meanwhile corrected) resulted in environmental damage. *FM:* The project does not meet IFC's requirements, but the shortfalls are either being corrected or negative impacts are moderate. For example: the FI's EMS is adequate, but some sub-projects have resulted in environmental damage; or the sub-projects visited have acceptable environmental standards, but the EMS is materially inadequate; or an FI (type 1) initially had no EMS, but has recently introduced a functioning EMS.	*Real Sector:* The project is not in material compliance with either IFC's current or at-approval requirements, and mitigation prospects are uncertain or unlikely; or earlier non-compliance (meanwhile corrected) resulted in substantial and permanent environmental damage. *FM:* The project does not meet IFC's requirements and substantial negative effects are known or likely, e.g: the FI's EMS is completely inadequate and nothing is known about sub-project performance; the EMS has material shortcomings and some sub-projects have negative environmental effects; while the EMS appears adequate, a significant portion of sub-projects have negative environmental effects; some sub-projects have resulted in substantial and irreversible environmental damage.
Private Sector Development Impacts	*All Sectors:* Considering its size, the project improved the enabling environment or otherwise	*All Sectors:* The project had some, but no major positive impacts	*All Sectors:* The project had mostly negative impacts, which, however, are not	*All Sectors:* Substantial negative impacts of broad applicability and/or ex-

(beyond project)	made a substantial contribution to the growth of private enterprises or efficient financial markets		expected to be of long duration or broad applicability (e.g., a failed project without substantial negative demonstration effects)	pected to be of long duration

IFC Investment Outcome

Rating	*Excellent*	*Satisfactory*	*Partly Unsatisfactory*	*Unsatisfactory*
Loan	Fully performing and, through a sweetener (e.g., income participation), it is expected to earn significantly more than a loan priced "without sweetener" would have earned if paid as scheduled. There is no indication that debt service payments will not remain current in future.	(i) loan expected to be paid as scheduled; or (ii) loan is prepaid in full; or (iii) loan has been rescheduled and is expected to be paid as rescheduled with no loss of originally expected income. In the case of an IFC guarantee, all fees are expected to be received, and guarantee is not called, or called but expected to be fully repaid in accordance with the terms of the guarantee agreement. In the case of an IFC swap or other risk-management facility, IFC has not suffered any loss and expects no loss due to non-performance of the swap counterparty. There is no indication that debt service payments to IFC will not remain current in future.	Loan has been rescheduled, or guarantee is called and in either case IFC expects to receive sufficient interest income to recover all of its funding cost but less than the full dollar margin originally expected. If all payments to IFC are current, but there is doubt whether payments can remain current in future, then a partly unsatisfactory rating may be preferable. For example, IFC may establish "flag" loss reserves of modest size (no more than 10%) for reasons such as country conditions, which are not related specifically to IFC's project. In these cases, a partly unsatisfactory rating may be used rather than unsatisfactory.	(i) loan is in non-accrual status; or (ii) IFC has established specific loss reserves; or (iii) loan has been rescheduled but IFC does not expect to recover at least 100% of its loan funding cost; or (iv) loan has been or is expected to be wholly or partially converted to equity in restructuring of a "problem" project; or (iv) IFC experiences a loss on its guarantee or risk-management facility.
Equity	Benchmarks vary, depending on the nature of the equity investment			

IFC Work Quality

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

Annex 3: Further Details on Results Characteristics – Investment Operations

Table 3. Characteristics of Project Ratings, by sub-indicator, 2006-08

Project Development Outcome Ratings, 2006-08

	LOW OUTCOMES				HIGH OUTCOMES			
	Highly Unsuccessful	Unsuccessful	Mostly Unsuccessful	Total low	Mostly Successful	Successful	Highly Successful	Total high
DEVELOPMENT OUTCOME	*6%*	*12%*	*10%*	*28%*	*22%*	*38%*	*12%*	*72%*
(by commitment volume)	*2%*	*5%*	*9%*	*15%*	*26%*	*43%*	*16%*	*85%*

	Unsatisfactory	Partly Unsatisfactory	Total low	Satisfactory	Excellent	Total high
Project business success	20%	13%	33%	33%	35%	67%
Economic sustainability	13%	9%	23%	43%	34%	77%
Environmental effects	10%	27%	37%	56%	8%	63%
Private sector development	5%	16%	21%	51%	28%	79%

IFC Investment Return Ratings, 2006-08

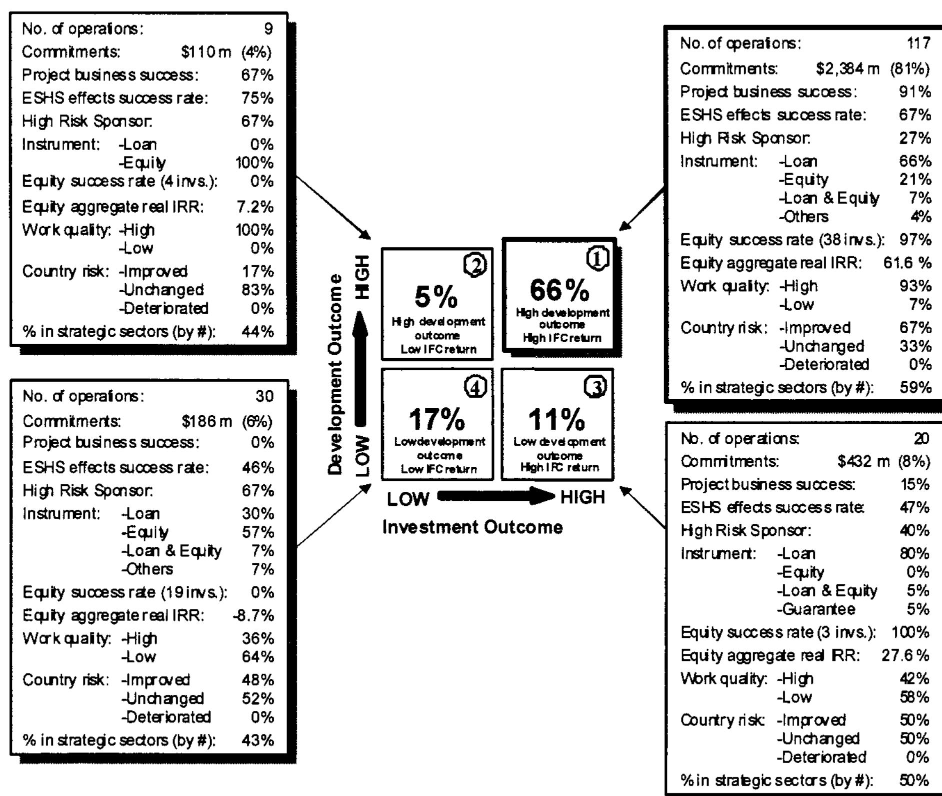
	Unsatisfactory	Partly Unsatisfactory	Total low	Satisfactory	Excellent	Total high
INVESTMENT OUTCOME	*16%*	*6%*	*22%*	*57%*	*21%*	*78%*
(by commitment volume)	*6%*	*4%*	*10%*	*59%*	*31%*	*90%*
Loan	4%	4%	8%	83%	9%	92%
Equity	35%	7%	42%	17%	41%	58%

IFC Work Quality Ratings, 2006-08

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

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

Figure 1. Combined Project Development Outcome and IFC Investment Return Characteristics, 2006-2008



Source: IEG

Annex 4: Risk Adjusted Expected Development Outcome Regression: Model Specification, Analysis and Preliminary Results

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

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

Development Outcome $_I$ = f (External Factors $_I$, IFC-controllable factors $_I$) + ε_I

The model includes the following external factors:

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

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

(iii) *Market risks* -- Captures the project's underlying competitiveness in the market in which it is operating, and any market distortions such as high tariff protection, degree of presence of State-owned Enterprises in the sector, artificial monopoly positions and other distortions that typically result in low competitiveness. Rated on a binary scale with 1 as High risk/ Low Competitiveness and 0 otherwise. Clearly demonstrated market competitiveness improves a venture's ability to meet business adversity and survive in its early years to reach its development potential. Economic Rates of Return and development impact in

general tend to be lower in distorted market environments. Distortions drive a wedge between market and economic prices, and financial and economic returns of a project, resulting in a divergence between private and social returns. Distortions are normally unsustainable over the long term creating also financial risks if a particular enterprise benefits financially from market distortions. The variable is measured as of time of approval.

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

The model excludes some possible factors, such as whether the client is a new client or a repeat client, IFC sector experience, and project size, that are in some way highly correlated with factors that are already included in the model.

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

(v) *Screening, appraisal and structuring quality* -- Rated on a binary scale with 1 as Satisfactory or better, and 0 as less than Satisfactory.

(vi) *Supervision and administration quality* -- Rated on a binary scale with 1 as Satisfactory or better, and 0 as less than Satisfactory.

(vii) *IFC additionality* – proxied by IFC's role and contribution rated on a binary scale with 1 as Satisfactory and 0 as less than Satisfactory.

Table 4 presents summary statistics.

Table 4. Summary statistics for Key variables: 2000-2005 Vs. 2006-2008

	Average for 2000-2005	Average for 2006-2008	Direction and magnitude of change
Development outcome success (%)	0.57	0.72	Significant Improvement
Changes in country business climate	3.13	13.6	Significant Improvement
Sponsor risk	0.40	0.37	No significant change
Market competitiveness	0.68	0.60	Improvement
Project type	0.41	0.42	No change
Screening, Appraisal & Structuring Work quality	0.51	0.74	Significant Improvement
Supervision & Administration Work quality	0.69	0.86	Significant Improvement
IFC Role and Contribution	0.79	0.82	No significant change
#Observations	361	173	

Source: IEG

The external variables in the model are consistent with consideration of risk in both the financial and development worlds. Financial theorists and practitioners distinguish between the following main types of risks: (i) Country risk: the risk of loss on cross-border exposure due to government actions; (ii) Credit risk: the risk of loss due to borrower's default; (iii) Business risks: uncertainties in the revenues and expenses

[1] IFC, Project Finance in Developing Countries, 1(Washington, DC 1999, p. 29.

of a business associated with general industry trends, technological or regulatory changes; (iv) Market risks: risk of possible losses arising from changes in the market due to fluctuating or changing interest rates, foreign exchange rates, share prices and prices in general. In the development field, risks to development outcome are commonly considered in World Bank approval and evaluation documents. The risks most often identified in Bank project documents are similar to the risk factors included in the model: unfavorable changes in policies, or law and order situation; technical capacity and commitment of government partners and/or the implementing agency.

Regression results are presented in Table 5. All the coefficients have the expected signs and are significant at the 5% or 10% level. It is clear from the results that factors controllable by IFC tend to dominate the external factors both in terms of statistical significance and in terms of statistical impact.

Table 5. Determinants of Development Outcome-Probit Regression summary, 2000-2008

	dF/dx	P>|z|
Changes in country business climate	0.006**	0.011
Sponsor risk	-0.09*	0.10
Market risks	-0.14**	0.012
Project type	-0.10*	0.07
Screening, Appraisal & Structuring Work quality	0.38**	0.000
Supervision & Administration Work quality	0.35**	0.000
IFC Role and Contribution	0.55**	0.000
#Observations	517	
Pseudo R2	0.444	

Note: Coefficients displayed represent marginal changes in probability of successful development outcome due to unit change in explanatory variable, which for a discrete change of dummy variable is from 0 to 1; P-values are in the second column; * significant at 10%; ** significant at 5%.
Source: IEG

We next use the results in Table 5 to estimate the impacts of risk and IFC-controllable factors on development outcomes by regional and industry departments. Our point of departure is the realization that in an ideal situation of no risks and high work quality, the expected development success rate should be 100 percent[2]. We then simulate the probability of success by regional and industry departments with actual risk parameters and perfect work quality. This estimate of Development Outcome Success rates we call "potential Development Outcomes" because it indicates what could be achieved with high work quality, given the actual risk profile of projects undertaken by the respective departments, i.e. , Potential DO=f (actual risks, perfect work quality). The difference between the risk-free 100 percent rating and the potential DO can therefore be attributed to the effect of the degree of risks taken.

From the basic regression in Table 5, we obtain predicted Development Outcome Success rates by regional and industry departments, i.e., Predicted DO=f (actual risks, actual work quality). The difference

[2] The historical likelihood of default as ranked by Moody's for example shows over a normal five year period only 0.1% of AAA US corporate bonds default (see Credit and Default Risks available on:

http://personal.fidelity.com/products/fixedincome/risks.shtml.

between Potential DO and Predicted DO would then be due to gaps in work quality. Finally, the residuals, i.e., the differences between Predicted and Actual DO success rates are due to unexplained factors.

The results are presented in Table 6 below. As we can see risks factors had the largest impact on performance in Sub-Saharan Africa and MENA, 12% and 11% respectively, almost twice as large impact as in other regions. The impact of risk factors is less variable by industries than by regions. CIT and CGF tend to have higher risk profiles as reflected in slightly higher development loss due to risks taken.

For all departments, except CFN and CHE, IFC-controllable factors tend to dominate external risk factors in terms of impact on development outcomes. The impact is particularly pronounced in the case of EAP and CIT. It appears that CHE and CFN have achieved high levels of work quality. It is evident however that there is room for improvement in all regions and sectors. In addition, in Africa and MENA, even if we account for risk, the potential for success is higher but the potential is not achieved largely because of shortcomings in work quality.

Table 6. IFC's Project Development Outcomes and Factor Attribution

	Development Outcome			Difference between Actual and max=100%		
	Potential*	Predicted**	Actual	Due to Risk	Due to WQ	Unexplained
IFC, 2006	92%	65%	66%	-8%	-27%	1%
IFC, 2007	94%	73%	72%	-6%	-21%	-1%
IFC, 2008	93%	68%	75%	-7%	-25%	7%
IFC, 2006-08	93%	69%	72%	-7%	-24%	3%
SSA (15)	88%	60%	47%	-12%	-28%	-13%
EAP (29)	93%	57%	54%	-7%	-36%	-3%
SA (16)	92%	77%	75%	-8%	-15%	-2%
CEU (24)	95%	82%	84%	-5%	-13%	3%
SECA (26)	94%	87%	83%	-6%	-7%	-4%
LAC (48)	95%	82%	83%	-6%	-13%	1%
MENA (12)	89%	68%	50%	-11%	-21%	-18%
COC (9)	93%	69%	56%	-7%	-24%	-13%
CIT (15)	92%	61%	47%	-8%	-31%	-14%
CIN (18)	96%	88%	94%	-5%	-8%	6%
CGM (47)	93%	75%	63%	-7%	-18%	-12%
CGF (57)	92%	71%	77%	-8%	-21%	6%
CAG (10)	96%	79%	78%	-4%	-17%	-1%
CFN (11)	94%	91%	73%	-6%	-3%	-18%
CHE (6)	93%	93%	100%	-7%	0%	7%

Note: * Potential is Risk Adjusted Expected development Outcome (RAEDO) assuming perfect work quality. ** Predicted is RAEDO with actual risk profile and actual work quality.
Source: IEG

While the risk adjusted results provide a different perspective on results, it is still a work in progress, and further data and model refinements will be required to test and improve its reliability. Also, as with all models, it has certain limitations. For example, most of the variables, and the model's structural parameters, reflect IFC's experience. Therefore, comparisons of performance are valid only within IFC, across regions and industries, and across time for IFC as a whole. Small sample sizes for some of the departments affect the reliability of the estimates. Endogeneity, a perennial problem in the econometric analysis of investment decision-making, is also potentially an issue as mentioned earlier. Thus continuous refinement of the model is needed going forward.

It is worth noting that the current M&E system is designed to measure the level of effectiveness of the institution at the project and aggregate levels, but does not offer a single measure of the *comparative magnitude* of development impacts across projects. Therefore, since the RAEDO approach is also based on projects' development success rates, it still cannot not capture the differences that may exist with respect to these magnitudes This is an interesting but complex area for future work, which IEG is intending to pursue.

Annex 5: Chronology of IFC Advisory Services

Table 7. Chronology of IFC AS

Facilities and Initiatives	
Year	**Event**
1981	Business Advisory Service (BAS) for the Caribbean and Central America established (closed FY97).
1985	South Pacific Project Facility (SPPF) established to assist and accelerate the development of productive, self-sustaining SMEs in Pacific Island countries.
	Foreign Investment Advisory Services (FIAS) created.
1986	Africa Region-Africa Project Development Facility (APDF) established.
1988	Technical Assistance Trust Funds (TATF) program instituted, to develop TA projects to help strengthen the business environment in all IFC client countries, focusing on TAs to promote private sector growth.
1989	Africa Management Services Company (AMSCO) established to assist those SMEs that have substantial African ownership to become more sustainable and competitive in national and international markets.
1990	Pacific Enterprise Development Facility (PEDF) established to assist in and accelerate the development of productive, self-sustaining SMEs in Pacific Island countries (renamed PEP-Pacific in FY07).
1991	Polish Business Advisory Service (PBAS) established (closed FY96).
1994	Enterprise Support Service for Africa (ESSA) established (closed 2002, made part of APDF)
1997	Mekong Project development Facility (MPDF) launched to foster growth in the number and size of domestic private firms in the Mekong Region.
2000	China Project Development Facility (CPDF) to support the development of private SME s in the interior of China, with an initial focus on Sichuan province (renamed PEP-China FY07).
	Private Enterprise Partnership for Eastern Europe and Central Asia (PEP- ECA) to provide focused TA, with the goal of helping build successful private businesses in the former Soviet Union region (operation since 1987).*
	Southeast Europe Enterprise Development (SEED) launched
2001	Developing Enterprises in South Asia (DESA) created.
2002	Corporate Citizenship Facility (CCF) to demonstrate the business case for progressive approaches to corporate citizenship and to leverage the potential of IFC investments to act as a catalyst for improved environmental and social performance.
	Environmental Opportunities Facility (EOF) to provide catalytic project development funding and flexible investment financing for innovative projects that primarily address local environmental issues.
	South Asia Enterprise Development Facility (SEDF) established to increase the number and growth rates of SME s in Bangladesh, Bhutan, Nepal, and northeast India.
	Capacity Building Facility (CBF) initiated* to fund partnerships and programs that support the four core pillars of the WBG SME strategy.
	SME initiatives-To support various initiatives such as (i) addressing broader SME development issues (access to financing, business enabling environment, local economic development, and capacity building); (ii) funding pilot and partnerships projects; and, (iii) building local capacity for SME lending in target markets.
	North Africa Enterprise Development Facility (NAED) established to support the development of markets and institutions that are key to SME growth in (initially) Algeria, Egypt and Morocco.
	Sustainable Financial Markets Facility (SFMF) established to enhance the environmental and social impact of financial intermediaries (FIs) operating in developing countries, and to strengthen FIs' competitiveness by improving their capacity to manage environmental risk and the opportunities arising from increased sustainability; and to have a strategic impact on the sustainability agenda of the broader financial community..
	Indonesia Enterprise Development Facility (IEDF).
2003	Program for Eastern Indonesia SME Assistance (PENSA) initiated to support the increased flow of capital to SME s by strengthening SME banks, creating new SME financial products, and identifying and preparing projects for follow-on IFC investment; to support linkage programs related to IFC investments and to work with IBRD on improvements in the business enabling environment.
	Latin America and Caribbean Small and Medium Enterprise Facility (LAC SME Facility) established to promote private sector development through SMEs in selected countries in Latin America (e.g., target countries of Bolivia,

	Honduras, Nicaragua, and Peru) with the aim of fostering job creation and reducing poverty in the host countries.
	Iraq Small Business Financing Facility (ISBFF) established.
2004	DevCo was put in place to put in place sustainable contractual agreements in which infrastructure services are privately provided, with an emphasis on the provision of services to those that currently do not enjoy access.
	PEP-MENA assumed the activities of PEP-ME and NAED facilities and established to provide TA to support private sector development in all countries in the MENA region.
2005	BIDF established to assist the public sector in Southeast Europe to increase private participation and investment in infrastructures that contribute to economic development (renamed PEP-SEI in FY07).
	Formerly known as SGBI transformed into Grassroots Business initiative (GBI). Established to strengthen and expand support for Grassroots Business Organizations by the World Bank Group and others.
	SLDF established to expand SEDF's South Asia SME Development Program from Bangladesh to Sri Lanka and Maldives.
	Global Corporate Governance Forum (GCGF) established to promote global, regional, and local initiatives to improve the institutional framework and practices of corporate governance in developing countries.
	PEP-SE initiated to develop targeted and innovative projects to support private sector development. 2006 (a successor program to SEED)
	Mozambique SME initiative (MSI) established to finance SMEs on a commercial basis and provide TA to investee companies and outside service providers in Mozambique
	PEP-Africa established to enhance support to SMEs, support IFC direct investment through project development, and engage in improving the investment climate (a successor program to APDF).
2006	PEP-Philippines established to improve the business environment for SMEs to contribute to a broader-based economic growth and to sustainable poverty reduction in the Philippines.
	EICDF established to find technical assistance that will benefit local communities with the focus on Africa.
	PEP-ACEH established to provide technical assistance focused on private sector development in Aceh/Nias region in Indonesia.
	PEP-SADI established to assist activities in agribusiness supply chain linkages, rural financing and infrastructure in Indonesia
2007	BICF Bangladesh Investment Facility
	CES facility (SBI, SBAP, GEF, PPSPF CES GEF)

Operational/System Changes	
2003	IDA- IFC MSME pilot program launched in 2003.
2005	TAAS PDS-ER and TAAS PDS approval process introduced-- the development and implementation of a standardized Advisory Services (A/S) approval process. These two documents support the approval process through iDESK, the corporate system used for both investment and AS operations.
	Project Supervision Review (PSR) process introduced.
	TAAS Database created.
2006	TAAS Principles developed.
	TAAS operations organized around five business lines and business line leaders appointed.
2007	Pricing policy introduced for A/S products.
	Guidelines for WBG coordination created; joint WBG review of A/S.
	First core product review.
2008	A/S guidelines created.
	Second core product review and target of 80% "core" products (developed and in development).
	First Donor survey.
	Regional A/S portfolio review meetings introduced.
	A/S Legal Agreements Database launched.
2009	IFC Conflict of Interest guidelines introduced (previously COI was governed by overall WBG COI guidelines).

Performance and M&E	
2005	A/S training programs launched.
2006	New project M&E system introduced.
	Results measurement group for AS formed.
	PCR system introduced.
	Smart Lessons introduced, for sharing of experiences (Database launched 2007).
2007	Standardized performance indicators introduced.
	Project Completion report (PCR) incorporated into Idesk.
	First IFC A/S client survey launched.

Organizational Changes	
2000	The Global Financial Markets Group, which encompasses the Financial Markets activities of the seven regional departments and the Financial Markets Advisory Department, was created.
2003	The reporting lines for the various Project Development Facilities were changed, placing them under the responsibility of the IFC regional directors in order to strengthen the facilities' integration with regional strategy, products and services.
2004	Establishment of a funding mechanism for AS (FMTAAS) to consolidate the different sources of funding alternatives available within IFC.
2005	A/S Corporate Cadre created.
	The Advisory Services Portfolio Management Unit established.
2006	Joint World Bank/IFC Financial and Private Sector Development VPU .
2008	Vice Presidency for advisory services established.
	Advisory Services Corporate Cadre expanded.
	Access to Finance moves to Business Advisory Services Vice Presidency.
	Regional sector leaders/BLLs appointed.

Source: IEG

Annex 6: Advisory Services Facilities, by Region

Table 8. FY08 Advisory services facilities, by region

Region	Facilities (Funding Side)	Approximate share of FY08 AS Expenditures	(Most common) Delivery Units	Business Lines addressed
AFRICA	**Regional:** PEP Africa, SIMOZ **Global*** Note: Mozambique SME initiative, SME solution Center (not sure whether these are different than SME initiatives funding facility)	19% Regional: $26.5m. Global: $19.5 m.	PEP-Africa CAS CIC CES	PEP Africa addresses all business lines. However, most of the ESS, Infrastructure and BEE initiatives projects are addressed by headquarters.
EAST ASIA & PACIFIC	**Regional**: PEP China MPDF PEP Pacific PEP Philippines PENSA (SELF, IFC SADI, PEP ACEH) **Global***	15% Regional: $28.4m. Global $7.8m.	CEA CES CAS CIC	
C. & E. EUROPE	PEP	8% Regional: $22m Global:	PEP CES CIC CGM	Financial Markets, Corporate Governance, Linkages, SME Policy, Agribusiness. *Energy Efficiency at design stage.*
LATIN AMERICA & CARIBBEAN	LACP** **Global***	8% Regional: $14.1m. Global: $5m.	LACP CES CAS CIC CGB CGF	Till 2007, LAC facility mainly addressed three business lines: ESS, BEE and Corporate Advice. Recently Infrastructure and A2F business lines are added to the coverage of the facility.
MIDDLE EAST & NORTH AFRICA	PEP-MENA ISBFF (Iraq facility) **Global***	9% Regional: $19.2m. Global: $3.3m.	PEP MENA CAS (Dubai +HQ)	PEP-MENA addresses BEE, financial markets, SME development and infrastructure pillar (manager directly reports to Laurence Carter)
SOUTH ASIA	SEDF - South Asia SME Development Program, SEDF - Sri Lanka and Maldives (SLDF); BICF: Bangladesh Investment Climate Facility **Global***	7% Regional: $15.5m. Global: $2.8m.	SEDF SLDF BICF CES	

S.EUROPE & C.ASIA	PEP-SE (consolidation of SEED,BIDF) PEP-SEI **Global***	9%		PEP-SE PEP-SEI PEP CIC CES	Financial Sector Development and Access to Finance, BEE, linkages and Infrastructure
		Regional: $10.7m.	Global: $10.5m.		
GLOBAL	▪ FIAS ▪ DEVCO ▪ SME Initiatives ▪ CES Facilities (SBI, SBAP, GEF, PPSPF, CES GEF) ▪ EIDF (Extractive Industry Dev. Facility) ▪ TATF ▪ GBI/GBF ▪ Global Corporate Governance Forum (GCGF)	25% ($ 62.2m, this amount includes just the global projects, the projects delivered to regions are already included above)		FIAS CIA/CAS GBD SME unit CES COC CAG	
		100% ($244.7m)			

Source: IEG

* For global business units, see 'Global' region.

**Starting from 2005, this facility extended its coverage from SME to other business lines.

Annex 7: Project Sample Representativeness – Advisory Services

Table 9. Representativeness of IEG's 2006-08 PCR Reviews (compared with 2006-08 PCR Population)

IEG project reviews take place following a self-assessment by IFC, in the form of a Project Completion Report. Accordingly, the representativeness of IEG review coverage can be determined based on the population of PCRs for a particular period of time. This table compares the breakdown of the IEG review sample from inception of the PCR system in 2006 up to June 2008, with the population of PCRs completed since inception in 2006 through June 2008. For reference, the table includes the breakdown of the active AS portfolio.

	Active Portfolio # (as at June 2008)	%	Project Completion Report Population # (as at June 2008)	%	Project Completion Report Sample # (as at June 2008)	%
			707	100%	458	65
REGION						
Central and Eastern Europe	44	5%	66	9%	32	7%
East Asia and Pacific	131	16%	141	20%	88	19%
Latin America & Caribbean	92	11%	84	12%	53	12%
Middle East and North Africa	87	10%	98	14%	62	14%
South Asia	79	9%	54	8%	38	8%
Southern Europe and Central Asia	83	10%	70	10%	54	12%
Sub-Saharan Africa	189	23%	138	20%	101	22%
Global	134	16%	56	8%	30	7%
Grand Total	839	100%	707	100%	458	100%
PRIMARY BUSINESS LINE						
Access To Finance	226	27%	134	19%	90	20%
Business Enabling Environment	170	21%	225	32%	162	35%
Environment and Social Sustainability	135	16%	109	15%	63	14%
Infrastructure	98	12%	75	11%	45	10%
Value Addition to Firms	193	23%	164	23%	98	21%
Grand Total	822	100%	707	100%	458	100%
IDA STATUS FY2008						
IDA Blend	123	15%	92	13%	59	13%
IDA-only	260	31%	200	28%	137	30%
non-IDA	245	29%	270	38%	170	37%
(blank)	211	25%	145	21%	92	20%
Grand Total	839	100%	707	100%	458	100%

SIZE (Total Funding)						
X=<15,189	4	0.5%	13	2%	7	2%
15,189<X=<686,287	519	62%	614	87%	410	90%
X>686,287	315	38%	79	11%	40	9%
(blank)	1	0%	1	0%	1	0%
Grand Total	839	100%	707	100%	458	100%
SIZE (Total Funding, Quartile)						
X=<84,250	77	9%	177	25%	117	26%
84,250<X=<312,080	254	30%	352	50%	240	52%
X>312,080	507	60%	177	25%	100	22%
(blank)	1	0%	1	0%	1	0%
Grand Total	839	100%	707	100%	458	100%
PRODUCT TYPE (at June 2008)						
Developed	257	31%	151	21%	95	21%
In Development	307	37%	264	37%	171	37%
Legacy	105	13%	146	21%	100	22%
Other	154	19%	146	21%	92	20%
Grand Total	823	100%	707	100%	458	100%
START FY						
1996-2003			96	15%	63	12%
2004			120	17%	90	20%
2005			197	28%	127	28%
2006			197	28%	121	26%
2007			91	13%	52	11%
2008			6	1%	5	1%
Grand Total			707	100%	458	100%
END FY						
1996-2003			6	1%	4	1%
2004			29	4%	28	6%
2005			103	15%	89	19%
2006			180	25%	153	33%
2007			236	33%*	132	29%*
2008			152	21%*	52	11%*
blank			1	0%		
Grand Total			707	100%	458	100%

Note: *The lower proportions of reviewed PCRs in 2007 and 2008 reflect the exclusion from the review of 47 PCRs for projects that ended in 2007 and 2008 for which development effectiveness ratings could not reasonably be expected to be achieved, e.g. one-off conferences, workshops and feasibility studies. In such cases, independent review of development performance is not meaningful.
Source: IEG

Annex 8: Project Evaluation Methodology – Advisory Services

The development performance indicators and rating criteria applied by IEG in reviewing Advisory Services Project Completion Reports(PCR) are set out in Table 10 below.

Table 10. Project Performance Indicators and Rating Criteria for IFC Advisory Services Operations

Rating	Definition	*Excellent*	*Satisfactory*	*Partly Unsatisfactory*	*Unsatisfactory*
Strategic Relevance	Importance to achieving country strategic objectives, appropriateness at initiation and completion, including whether Advisory Services was the appropriate instrument	Major priority issues addressed; National/regional level impact was achieved; Highly appropriate for conditions at initiation and completion Appropriate client contribution was achieved	Major priority issues addressed to a large extent; Potential major impact on direct recipients and/or local community; Appropriate for conditions at initiation and completion; Majority of appropriate cost recovery achieved	Some priority issues overlooked; Assistance was appropriate at initiation, but conditions changed and assistance was not adopted accordingly; Less than appropriate cost recovery achieved	Addressed low priority issues; Not appropriate given the conditions at initiation; No cost recovery, or contribution was not appropriate
Output Achievement	Immediate project deliverables (products, capital goods, services or advice)	All major outputs achieved with excellent quality; or More than expected outputs achieved with at least satisfactory quality	All major outputs achieved with satisfactory quality	At least one major deliverable not achieved; or At least one major output of less than satisfactory quality	Few or no major outputs achieved; or Several major outputs of less than satisfactory quality
Outcome Achievement	Short or medium term (positive and negative, intended or unintended) behavioral changes resulting from the advisory project	All or most major outcomes achieved; Client attributed changes in behavior and performance to the advisory project.	Most of the major outcomes achieved; Client indicated the advisory project contributed to major changes in behavior and performance.	Less than half of the major outcomes achieved; Client attributes limited influence on behavior/performance changes.	Few or none major outcomes achieved; Client attributes limited influence on behavior/performance changes or they had perverse effects
Impact Achievement	Intended longer term effects of the advisory intervention	Exceptional benefits beyond direct recipients, at the national, regional, global level; Impacts extended nationally or internationally as best practice and recommended for replication; All major impacts achieved with strong attribution to the project backed by evidence from a solid methodology.	All intended impacts on direct recipients have been achieved with attribution to the project backed by solid evidence; Most direct impacts have been achieved and some impacts were achieved beyond direct recipients with attribution to the project backed by solid evidence.	Intended impacts on direct beneficiaries mostly achieved, but attribution to the project is weak; Intended impacts partly achieved; Intended impacts mostly achieved, but some negative impacts occurred	Intended impacts not achieved; or Negative impacts occurred
Efficiency	Ratio of costs to benefits; Economy in use of resources; Cost in relation to alternatives	Highly positive cost-benefit ratio; Resources expended highly economically; Resources far less costly than alternatives	Positive cost-benefit ratio; Resources expended economically; Resources reasonable in relation to alternatives	Negative cost-benefit ratio; Resources could have been at times expended more economically; More reasonable alternatives available and could have been used	Highly negative cost-benefit ratio; Resources could have generally been expended more economically; Significantly more reasonable alternatives available and could have been used
Development Effectiveness	Synthesis (not an average) of the above five dimensions	6 point scale, ranging from Highly Successful (overwhelmingly positive development results and virtually no flaws) to Highly Unsuccessful (negative developments and no positive aspects to compensate).			

Source: IEG

Annex 9: Findings from IFC-commissioned Reviews of IFC Advisory Services

This annex summarizes some of the main findings from 51 IFC-commissioned reviews that were completed up to December 2008. They encompass: 7 program reviews; 16 product reviews; and 28 project reviews (of which 7 were impact evaluations).

Program Reviews

IFC-commissioned reviews have been completed for six regional facilities, and one business line.

Findings on **alignment** include:

- *Strategy:*

  - The facility does not have an overall strategy, just an aggregation of five business line plans.

  - The rush to ramp up has affected long-term planning. Strategies have not addressed market conditions, articulated goals, constraints, the facility role, etc.

  - Sector-based approaches are generally sound, but more comprehensive strategies should be developed.

- *Organizational Structure:*

  - Some regional programs and a department did not have formal relationship to the regional facility. The business line is mainly managed by a department ,rather than facility staff. .On the other hand, in the investment climate area the structure is different and strategically coherent.

  - The business line is run largely independent of the facility, with staffing split between the two.

- *Coordination with Others:*

  - Organization by pillars, rather by country, seems to constrain identification of synergies with WB.

  - Some awareness of each others' programs (with WB), but limited exchanges of view and common programs.

  - The facility works in close cooperation with the WBG and other donors.

  - Generally, the facility has a positive relationship with IBRD. Three of five IBRD country managers said the facility had met or exceeded expectations. PSD specialists say the relationship has been very strong in some countries but more interaction regarding SMEs is desired.

  - Links with investment is unclear to staff regarding the extent to which they should/ should not be linked.

Findings on **delivery** include:

- *Funding/Pricing:*

  - Limited assessment of client willingness to pay and existence of market failure/s. In two cases, the client was likely to hire a consultant, and pay, without IFC's help. In another case, the facility underwrote the cost of key information systems that the company was already using.

  - Almost none of the investment clients receiving IFC AS paid the full cost.

- *Project Design:*

  - Project timetables are often not realistic.

- Potential problems and time horizons have been underestimated.

- Pressure to 'ramp up', rather than a deliberate process of resource allocation.

- *Project Implementation:*

  - Management of the business line projects has suffered from lack of staff continuity, sporadic coordination between the objectives of the business line projects and IFC investment operations, and low allocation of resources and staff incentives for the Task Managers. A general lack of management attention to technical assistance projects appears to be the principal factor, since IFC performs these same functions well in investment operations, often with the same implementing partner.

- *Staffing:*

  - 95 percent of staff are co-terminus with the facility, 5 percent are open-ended; 34 percent of staff work in admin/mgmt roles, indicating a high level of bureaucracy. Recruitment takes a long time, whether for one year or open-ended hire. Also hard to recruit best with a short term offer.

  - Staffing is linked to donor funding, and it is difficult to recruit the best people on short-term contracts. But the facility has still ramped up relatively quickly. Supervision quality is an issue.

- *Performance M&E:*

  - IFC needs to establish metrics to measure the performance of the implementing organizations according to commercial industry standards.

  - Confusion over logic models and indicators among staff. Too many and inappropriate indicators chosen. Supervision reports not submitted in a timely fashion.

  - Facility has been struggling to find the right process controls and tracking systems.

  - Financial controls are in place, but budget and cost accounting could be strengthened.

  - The validity and reliability of results data are questionable. Focus on data collection and simple reporting, rather than critical analysis. Lack of baseline data.

  - Very strong in this facility, contributing to a better definition of the facility's program (e.g., through lessons and results dissemination), and acknowledgement in HQ.

  - There is room for improvement in financial management (budgeting, approval and expense tracking)

  - There are a number of problems with the validity and reliability of performance data.

Findings on **effectiveness** include:

- *Relevance:*

  - The facility has carried out relevant activities, although the pattern of expenditures did not always reflect the relative needs of countries in the region. For example, roughly the same level of funding was budgeted for projects in some countries where there is a huge disparity in income levels. By business line, expenditure levels also show no relationship with objective indicators of country needs for services such as assistance improving the business environment, expanding private credit, and developing private infrastructure.

  - All pillars address important issues regarding business development in the region. However, for some pillars, the linkages between business development and development impact would have to be supported by empirical studies.

- The facility's programs have been relevant to the private sector development needs in the countries concerned. Allocation of resources across countries seems reasonable, with no major duplication of effort among donors and no major holes in coverage.

- *Results:*

  - Of the nine programs reviewed in depth, all of them were in accordance with the facility's strategy, and addressed identified needs. Six of nine were considered to have achieved satisfactory or better effectiveness. However, in two cases, each rated 'good' for effectiveness, linked investments were not yet operational, and accordingly effectiveness was based on the likelihood of good outcomes rather than realized outcomes.

  - The facility appears to have been effective in achieving certain objectives: i) helping to increase credit available to underserved markets; ii) improving the skills of business managers, reducing regulatory burdens on businesses; and iii) securing private participation in public infrastructure projects. At the same time, a number of projects did not appear to have generated the intended outcomes. Generalizations from these findings are limited however, since the review looked at only four projects in depth (projects that had been selected by the facility as 'best examples' of the ones that generated significant development impacts, thus not representative of the population of facility's projects) and relied heavily on interviews with staff and secondary data provided by the facility.

  - Many activities have proved effective, such as contributions to business legislation. However, 'the case that these programs have been effective in achieving stated objectives is harder to make'. The review points to some successful programs and some less successful programs.

  - Many changes within organizations supported by the facility are likely to persist, such as skills and process improvements.

  - Some initiatives 'have met with considerable success', while others 'had limited reach and limited impact.'

  - Three main success factors: i) sound planning (e.g., consistent with the long term plans of the client) and execution; ii) effective follow through; and iii) integration of projects within a particular sector.

  - Better performance where IFC has significant experience; steep learning curve for business lines, where IFC is working with new types of stakeholders and beneficiaries.

  - Viability and scalability is most robust when the initiative is developed within a commercially-structured institution. The business line AS projects perform at their best when they enhance a direct IFC investment or a related advisory program (synergies in program design, e.g.; Investment due diligence identifies institutional weaknesses that need to be addressed, and management, regularity of reporting when there is an Investment e.g.;, incentives to achieve success are greater when linked, given the onus on Investment in IFC). More like a traditional donor grant program if not linked.

- *Efficiency:*

  - The transaction costs associated with AS and investment operations with individual FIs are high relative to the scale of these operations.

  - Higher for developed pillars: Accumulated experience allows IFC to replicate and scale up at minimum cost, although in other pillars requiring more innovative approaches, efficiency remains to be demonstrated.

- The facility is capturing certain economies of scope and scale by replicating programs across countries. However, some projects are unlikely to generate benefits commensurate with the level of investment.

- *IFC Role, Strengths and Weaknesses:*

  - The main strength of the projects is derived from IFC's strategy and multi-faceted capacity to support commercially viable service providers (licensed and regulated financial institutions) The unique value proposition of the IFC vis-à-vis other development agencies, donors, and investors is generated by the IFC's ability to employ unique combinations of funding, technical support and credibility to financial institutions and markets (don't have to channel funding through public sector, like other donor organizations). The IFC's ability to engage policy makers on financial sector matters enables the Corporation to support market development. Few development agencies have this capacity or mandate.

Product Reviews

IFC commissioned reviews have been completed for 16 products, 10 of which were in the CA business line.

Findings on **delivery** include:

- *Project design:*

  - A standard supply and product-driven approach maintains consistency across projects, but needs tailoring to meet specific market needs.

  - The interventions were of mixed relevance to the company's strategic goals because of inconsistent implementation of needs assessments and lack of alignment around project goals and objectives.

  - Formal overarching plan or strategy for the development of the toolkit is absent.

- *Project implementation:*

  - Use of associations as an exit strategy has had mixed results, largely due to the availability of motivated local partners and historical context. Alternative options may need to be considered.

  - The management structure for AS projects is evolving, with standards and procedures for program design, oversight and M&E being developed, but these are inconsistently applied across projects.

- *Staffing:*

  - Good local staff for start-up, strong project management capabilities, but need for international commercial experts .

- *Coordination with Others:*

  - Links with IFC investments have taken place on an ad-hoc basis, based largely on good personal relationships.

- *Performance M&E*:

  -A system for reporting on deliverables is in operation, but it needs to be standardized.

  -M&E framework systematically tracks outputs and some outcomes, but limited focus on impacts. Need for qualitative case studies to complement data.

  -Lack of baseline data prior to the intervention and the absence of standard reporting metrics in the social investment space.

  -Baseline data and program monitoring is weak.

-Measurable objectives and associated metrics have not been developed.

Findings on **effectiveness** include:

- *IFC Role, Strengths and Weaknesses:*

  - Advocacy in operations has been a key strength, given the strong working relationships that IFC enjoys at very high levels of government. This was critical to the adoption of legislative agenda in all three of the mature projects. There may be need for more attention to developing a mechanism to continue the advocacy role after completion of the IFC project.

  - IFC is in a very strong position to be the market leader with the product.

  - The team initiated the supply of training of this type, the market making task is done, and the work is no longer unique in most markets and cannot be justified in the country. Donors would be willing to subsidize, in poorer markets, but more willing to do so if the business line is separated from IFC. Best to hand over to local training companies, and have a foundation manage the brand globally.

  - Seventy-nine percent of SMEs attributed success in securing contracts with the client due to IFC support. Rationale for IFC intervention is not always clear.

  - Attempting to bring about the "change in the organization's DNA" from that of a socially-oriented organization to a commercially viable enterprise is an ambitious endeavor.

  - IFC Strengths: 1) Strong local staff backed by worldwide experience; 2) High level support and credibility with governments 3) Ability to leverage TA funds and manage partnership with key donors; 4) Global reach and continuing presence in markets; 5) The ability to invest and provide liquidity to the market; 6) Strong project management capabilities.

  - IFC Weaknesses: 1) A supply-driven approach to project design, based on a standard product (developed for Russia market) rather than on needs identified in a given market through an ex-ante needs assessment; 2) A shortage of specialists with commercial operating experience both to act as short-term resources for projects, but also to advocate for leasing in headquarters; 3) An evolving management structure for AS projects, with standards and procedures for program design, oversight and M&E being developed, but still inconsistently applied in the field; and 4) A lack of institutional mechanisms linking AS activities with investments.

Project Reviews

Project reviews were completed for 28 projects, of which 4 were impact evaluations involving control group designs.

Findings on **results** include:

- Enrollment increased; revenue went up, but costs also increased.
- Higher quality treatment & outcomes with private provision, compared to public provision.
- Better business behavior of trainees, but no significant difference in business results between those trained and not trained.
- No significant difference in practices between participants & non-participants.

Annex 10: High-Level Comparison of IFC Advisory Services with Those of Other MDBs

Introduction

The purpose of this exercise is to provide perspective on IFC's Advisory Services for private sector development (PSD) by comparing them with PSD-related advisory services (AS) provided by other donors. Across the major bilateral and multilateral donors, the annex compares PSD strategies, volume and types of AS, delivery mechanisms, funding and pricing, monitoring and evaluation systems, and results and lessons learned.

Information was gathered from websites and telephone interviews with each of the major multilateral donors: the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), the Inter-American Development Bank (IDB), the African Development Bank (AfDB), the European Commission (EC), and the European Investment Bank (EIB) -- and two bilateral donors (the U.K. Department for International Development (DFID) and the Danish International Development Assistance (DANIDA)). Interviews were conducted with staff and managers in sectoral and regional departments as well as independent evaluation departments. Documents reviewed included PSD and regional strategies, descriptions of TA projects and programs, and independent and self-evaluations of PSD TA projects and programs.

Quantitative benchmarking was limited by the lack of detailed data on PSD AS from many of the donors, largely because of the result of inadequate monitoring and evaluation systems. Thus, the annex presents comparisons only for donors and dimensions where the data seem to measure the same concepts. Most of the quantitative information was taken from independent evaluations, or from Annual Reports.

Strategies and Objectives

PSD and AS strategies

During the late 1990s, most donor strategies for PSD were based on the OECD Development Assistance Committee (DAC) guidance for donor actions to support private sector development. The "DAC Orientations" addressed the fundamentals of privatization, financial sector reform, and enterprise development. Most donors tended to reproduce the DAC framework without indicating areas of priority for their own interventions or, where they did so, the rationales for these choices in the PSD strategies. None attempted to develop the analytic linkage between PSD and poverty reduction, nor were national PSD assessments prepared that could be the basis for tailored interventions.

More recent PSD strategies have made progress on both of these issues. Most -- including the 2002 PSD Strategy of the World Bank Group (WBG) -- now attempt to draw the analytical link between PSD and poverty reduction by tracing the logical framework from improved competitiveness and productivity at the enterprise level to increased growth at the sector and economy levels, and calling upon a growing body of research to establish the link between economic growth and poverty reduction. Some PSD strategies, again including that of the WBG, call for assessments of the investment climate and institutional capacity to direct project design (fewer carry them out in practice -- see below).

Most donor strategies for PSD aim to:

- improve the market conditions within which private firms operate (improving the business environment, reforming the legal and regulatory framework, developing markets for financial and non-financial services, strengthening public and private sector institutions relevant for PSD, improving governance)
- make individual firms more competitive (facilitating privatization, helping firms adopt better technologies, building labor and management skills). Among the types of firms, small- and medium-scale enterprises (SMEs) are the typical target group.

Table 11 shows, for selected donors, the objectives of PSD assistance and of PSD TA activities more specifically. Scanning the table, what stands out is the similarity of PSD strategies across donors -- probably the result of efforts to harmonize donor practices via the OECD DAC guidelines as well as the efforts of other coordinating groups (e.g., the Committee of Donor Agencies for Enterprise Development).

Table 11. Strategic Objectives

Organization	PSD Objectives	PSD TA Objectives
IFC	PSD strategic directions: PSD is a way of doing things, not a sector. PSD is about a good balance between the complementary functions of the state and the private sector. Public policy for the private sector and direct support to the private sector need to form part of a comprehensive approach to development and reflect country and sector conditions. Specific PSD objectives: Extending the reach of markets, improving access to basic services. *World Bank (2002).* IFC Priorities: Strengthening the focus on frontier markets, including SMEs and agribusiness Building long-term partnerships with emerging players in developing countries Addressing climate change, and environment and social sustainability activities Addressing constraints to private sector growth in infrastructure, health and education Developing local financial markets through institution building, the use of innovative financial products and mobilization *(IFC 2008)*	No overarching strategy for AS. Direction is provided by IFC Corporate Strategies and Road Maps. " IFC Advisory Services are an important and growing part of IFC's business. They contribute significantly to IFC's additionality, by improving the business enabling environment for the private sector as well as the capabilities of companies. " "A number of programs are being developed to promote combined investment and advisory services to increase IFC's value-added to projects." *(IFC 2008)*
ADB	For public sector operations: (i) to support developing member country governments in creating enabling conditions for business, and (ii) to generate business opportunities in ADB-financed public sector projects. For private sector operations, to catalyze private investments through direct financing, credit enhancements, and risk mitigation instruments. For both public and private sector operations, there are four areas of focus: (i) governance in the public and private sectors, (ii) financial intermediation, (iii) public-private partnerships, and (iv) regional and sub-regional cooperation. *ADB (2000)*	For public sector operations, TA seeks to help formulate the regulatory and institutional frameworks needed to make markets work better and to build the capacity of market regulatory authorities. Specific areas of intervention for TA are policy reform, institutional development, privatization, corporate governance, financial sector, and SMEs. *(ADB 2000,2007)*
EBRD	EBRD's PSD strategies are part of: (i) country strategies for each country, which include a private sector section, and (ii) sector specific strategies (agribusiness, energy, natural resources, property, shipping and transport) which cover the public and private sectors, depending on the subject. *(EBRD*	For the TAM/BAS program, "to promote the economic transition through advice and mentoring at the enterprise level and the development of a sustainable infrastructure of business advisory services, and to contribute to improving the policy and regulatory environment for business." *(EBRD 2007b)*

Organization	PSD Objectives	PSD TA Objectives
	website) MSME Strategy: "to provide support for MSMEs across all of the Bank's countries of operations, strengthen the financial sector infrastructure dedicated to financing growth of MSMEs of all sizes, improve the business environment for MSMEs, and develop the skill sets of entrepreneurs." *(EBRD 2006)*	For investment-related TA, to promote institutional reform and improved corporate governance. *(EBRD website)*
IDB	Four "strategic directions": (i) development of an enabling environment for business, (ii) financial support for specific private sector projects, (iii) leveraging developmental impact in underserved markets, and (iv) engaging the private sector in dialogue and action. *(IDB, 2004)*	The IDB's technical assistance supports private sector development by restructuring and modernizing the public sector, supporting investment sector reform, promoting regional trade and integration, and supporting micro and small businesses. *(IDB 2004).*
AfDB	The AfDB aims at inducing private sector growth in regional member countries (RMC) by: (i) supporting reforms of the policy/regulatory enabling environment for private sector in RMCs through country dialogue and policy-based operations; (ii) improving the physical and financial infrastructure in RMC to enhance private enterprises productivity and competitiveness; (iii) supporting the strengthening of human capital, in terms of expanded technical assistance, transfer of skills, know-how and technology; and (iv) catalyzing inflow of financial resources to RMCs through direct investment and diversification of financial services. *(AfDB 2004)*	Technical Assistance Facility: Policy advice and technical assistance to governments in order to facilitate the creation of an enabling environment, promote privatization schemes, revise and rationalize investment codes and fiscal regimes, promote foreign direct investments, develop the financial sector and capital markets, etc. Financial advisory services to governments for privatization projects. Advisory services to private operators on the formation of new projects or the restructuring of existing ventures. Technical assistance to private sector clients in order to overcome important constraints or capacity deficiencies. Technical assistance to other economic agents, which play a role in promoting private sector development, such as business associations, etc. *(AfDB 2004)*
EIB	PSD Strategies are prepared at the country level. *(EIB website)*	To support the preparation and implementation of EIB investments. *(EIB website)* For Mediterranean countries, "to support activities upstream of projects such as policy, legal, regulatory, and institutional reform, sector development strategies, capacity-building and training". *(EIB 2006)*

Levels of intervention

Most PSD AS strategies distinguish between three "levels" of intervention for PSD: i)the macro level (policies), ii)the meso level (institutions) and iii)the micro level (firms) (Table 12). It is useful to make two more divisions. At the macro level, interventions can focus on classic macroeconomic policy (monetary, fiscal, trade, and exchange rate policy) and the legal and regulatory framework. The meso (institutional) level includes both public and private sector institutions. The private sector, of course, extends across the meso level (private sector institutions) and micro level (non-financial enterprises). Sometimes, donor PSD strategies include physical infrastructure (telecom, ports, transport) under the macro level, but Table 12 excludes these physical investments since they are not TA activities.

Table 12. Levels of Intervention for PSD AS

Macro Level		Meso Level		Micro Level
Macroeconomic Policy	*Legal and Regulatory Framework*	*Public Sector Institutions*	*Private Sector Institutions*	*Individual Firms*
Trade and exchange rate policies Monetary policy and inflation control Tax policy and fiscal expenditure Labor market policy, observance of labor standards Financial sector regulation and supervision Privatization policy	Regulation of natural monopolies Competition policy Bankruptcy law Legal system Anti-corruption and transparency Property rights	Competition authorities Banking regulators Revenue and customs authorities Courts R&D institutions Training institutions Investment promotion agencies	Chambers of Commerce Employers organizations Labor unions Financial intermediaries Trading exchanges BDS providers Quality, testing, and certification centers	Management skills and entrepreneurship Manpower and labor skills Technology, expertise, quality management Access to finance Access to information

In general, donor PSD strategies have begun to emphasize interventions at the macro and meso levels, de-emphasizing micro-level interventions unless they have demonstrable impacts beyond the beneficiary firm. This strategic shift away from direct, firm-level PSD support was the result of accumulated experience with projects. Because of their low outreach, micro-level interventions usually failed to have much impact beyond the beneficiary firms. The previous "division of labor", in which multilaterals provided the greater part of enabling environment support and bilaterals were largely marginal in this field, has become less apparent. The majority of donor strategies now claim to assist at the macro and meso levels (Figure 2).

Despite the agreement in principle to move away from micro-level interventions, the practice of donors, both multilateral and bilateral, only weakly reflects this consensus. While the leading multilaterals do focus on the macro level, and some bilaterals provide funds to multi-donor business environment programs, there are few signs of programs involving direct support to enterprises being cut back. Canada and Sweden, the bilaterals whose policy statements best reflect the emerging consensus, still retain programs entailing direct support to enterprises, including --in Canada's case-- a large enterprise-to-enterprise matchmaking program. The EC PSD Strategy says that particular attention should be given to macro-level interventions, but also leaves room for micro-level programs that can crowd out private initiative and introduce market distortions. The recent evaluation of EC PSD activities concludes:

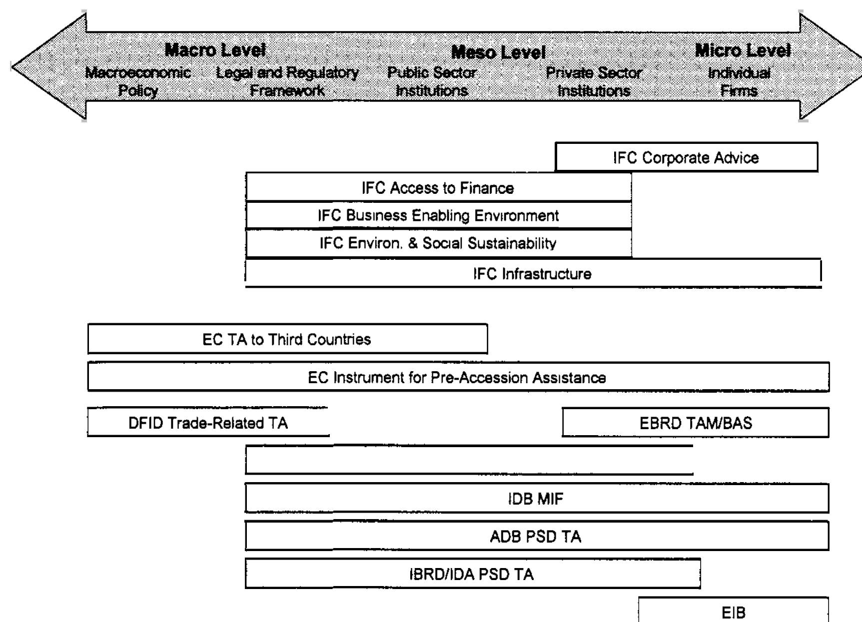
> *"Most meso- and micro-level programs are focused on provision of services, directly or through intermediate organizations: provision of a credit line, provision of BDS, organization of business trips, and so on. These services are always provided at subsidized rates and in the great majority of cases do not tackle the causes of the malfunctioning of the market. In other words, the program substitutes the private sector instead of trying to reinforce the market. In that sense it is possible to say that there is a gap between the strategy proposed by HQ and its implementation in the field."*

EBRD operates mainly at the micro level, both through the Turnaround Management and Business Advisory Services (TAM/BAS) programs as well as other AS that are tied to the preparation and implementa-

tion of EBRD investments. EIB intervenes exclusively at the micro level, as virtually all of its assistance focuses on preparing and implementing EIB investments. On the other extreme, the Integrated Trade-Related Technical Assistance program funded by DFID (and other donors) focuses almost entirely on the macro level, funding country-level diagnostics of external and internal constraints to global trade.

The EC, IBRD/IDA, IDB, and the other multilateral development banks intervene at all three levels. The same is true for IFC, but macro-level Advisory Services are limited to legal and regulatory frameworks. The Corporate Advice (CA) business line focuses on individual firms, supporting privatization transactions as well as providing assistance to SMEs. Access to Finance (A2F) operates mainly at the institutional level, assisting financial intermediaries in developing financial instruments and extending access to smaller firms. The Business Enabling Environment (BEE) and Environmental and Social Sustainability (ESS) business lines work at both the policy and institutional levels. The Foreign Investment Advisory Service (FIAS), Multilateral Investment Guarantee Agency (MIGA) TA to investment promotion agencies, and the Doing Business and Getting Finance assessments are part of the BEE business line. Finally, the Infrastructure (INF) business line involves both the micro level (public-private partnerships) and the macro and meso levels (regulation of natural monopolies and related institutions), including the assistance provided by the Public-Private Infrastructure Advisory Facility (PPIAF).

Figure 2. Focus of AS Interventions in PSD Strategies



Integration with core activities

For donors that invest and lend directly to private firms, AS at the micro level tends to be closely linked with these core activities (Table 13). In these cases, trust-funded AS can be seen as an alternative to project preparation funding from the donor's administrative budget. This is the case with EIB, for example: virtually all of the PSD TA provided by EIB is intended to assist in the preparation and implementation of potential investment operations.

The integration of IFC's AS with lending and investments is less than EIB's, but is still important. Advisory Services under the Infrastructure business line in particular tend to be linked with potential IFC investments. Overall, the share of IFC AS that is tied to existing or potential investments (measured by percentage of new project approvals) has been between 20 percent and 30 percent. For the future, IFC's strategy is to increase these linkages.

Donors that lend directly to governments also integrate their PSD AS with lending operations, but the interventions are mostly at the meso and macro levels, supporting policy and regulatory reform and institutional development. IBRD/IDA and the other MDBs fall into this group. Most of these donors have called for closer links with lending activities at the country level in order to improve the strategic focus of PSD TA.

Finally, the bilateral donors, whose core activity is not investment and lending operations, offer "independent" PSD TA.

Table 13. Integration of AS with Core Activities

Private Sector Lending and Investments	Public Sector Lending	No Equity or Lending Operations
EIB: Virtually all PSD TA is tied to existing or potential investments *(donor interviews)* EBRD: 88% of TA supports EBRD investment projects *(EBRD website)* IFC: 30% of AS supports IFC equity and lending operations *(IEDR 2009)*	IBRD/IDA: Of ESW delivered during fiscal 2002–06, 41% were aimed at informing Bank lending. About two-thirds of a selected sample of 119 loans was preceded by ESW, including nearly all development policy loans ESW (and sometimes TA) was generally used to inform country strategies. *(all from World Bank 2008)* ADB: 25% of TA approvals (2000-06) were for project preparation *(ADB 2007)*	DFID, DANIDA, and other bilateral donors: PSD TA is independent *(donor interviews)*

Sources of information presented in italics.

Direct interventions versus market development

Experience has shown that direct, subsidized provision of both credit and BDS tend to distort markets and have low sustainability. Most donors seem to have learned these lessons in their financial services interventions, but fewer have adopted the "market development approach" to business development services (BDS). For example, although the EC's PSD strategy explicitly adopts donor guidelines on BDS market development, in practice the EC maintains programs that provide subsidized BDS directly to SMEs. In a similar way, IFC maintains demand-side subsidies for BDS to SMEs in its PSD projects with IDA in the

Africa Region. In countries where markets for advisory services are well-developed, IFC runs the risk of crowding out the private sector when it directly provides competing services.

Alignment between strategy and operations

A frequent complaint found in evaluations of donor PSD assistance is that the actual activities implemented are not well aligned with the stated PSD or PSD AS strategy. Instead of following a strategic, top-down approach, actual practice is more consistent with an opportunistic, bottom-up approach. For donors such as EIB that are providing PSD AS primarily as a complement to private sector investments, it makes sense that TA projects are made opportunistically. For other donors, the lack of alignment of between strategy and project selection reflects unresolved issues of staff incentives, the desire to disburse, competition with other donors, or a lack of relevance of the strategy with country conditions.

Recent PSD and PSD AS strategies call for diagnostics of local conditions -- in the investment climate, institutional capacity, or market development -- to be carried out before a AS program is designed. In practice, these are seldom done, although the World Bank Group's Investment Climate Assessments, FIAS diagnostics, and Doing Business/Getting Finance assessments are exceptions to the rule.

Volume and Types of Advisory Services

Table 14 presents information on the volume of PSD AS activities of some of the major donors. In FY07, IFC spent about $191 million on AS. This figure includes project expenditures for all five business lines as well as project-related expenditures (program management and support, new business development, and monitoring and evaluation) and non-project-related expenditures. By comparison, ADB spent about $241 million on PSD AS in 2006, an increase from an annual average of $213 million over 2004-06 (amounting to about 3 percent of ADB operations). EBRD provided about $138 million from its Technical Cooperation Trust Fund in 2007, up from an average of $112 million annually in recent years. IDB's Multilateral Investment Fund (MIF), the primary source of PSD AS not funded by IDB loans, spent about $100 million during the same year. IBRD/IDA spent about $15 million in FY06 on economic and sector work (ESW) and AS in the PSD sector, about the same amount that was spent per year during the previous five years.

By area of activity, IFC has focused particularly on A2F and CA. By comparison, EBRD had also focused on the financial sector (39 percent to banking, the Direct Investment Facility (DIF), and the Direct Lending Facility (DLF); and 26 percent to infrastructure). EC support has been directed to "institutional and structural reforms" (42 percent of PSD AS) and "enhancing human resources and capacities" (24 percent), although this data is quite old (1994-2003). The general conclusion is that, consistent with their PSD strategies, other donors cover a wide range of "sectors" or "business lines" in their PSD AS. IFC's range of AS does not stand out in this regard. However, IFC's expenditure on ESS does not appear to be matched by the other donors.

Table 14. Volume of PSD AS

Organization and Program	Coverage and Time Period	No. Activities	Expenditure (US$m)
IFC Advisory Services	All five business lines, total project-related and non-project-related expenditure, FY07	450	$190.5m
ADB PSD AS	2006 approvals 2004-06 avg./yr.	260 294	$241m $213m
EBRD PSD AS	TA financed by Technical Cooperation Trust Fund (TCTF), 2007 Of which: TAM/BAS	-- --	$137.5m (EUR 98.2m) $16.5m (EUR 11.8m)
IDB MIF	Non-reimbursable technical cooperation grants, 2007	116	$100m
IBRD/IDA PSD ESW and AS	Economic and Sector Work in PSD sector, FY06 Non-lending TA in PSD Sector, FY06	75 27	$10.261m $4.316m

Sources: IFC (2007), ADB (2007), EBRD website, IDB MIF website, World Bank (2008).

There is very little comparable data on the mix of PSD AS "outputs" provided by donors. The range of outputs includes:

- reports (sector and thematic studies, policy notes, diagnostics, advisory reports)
- surveys, data collection, and data analysis
- policy advice
- drafting of legislation, client document review
- technology adoption advice
- capacity-building and change management in institutions
- twinning arrangements with private firms
- knowledge-sharing forums: conferences, seminars, workshops, and training courses
- pre-investment and pre-privatization due diligence
- institutional development plans
- "how-to" guidance (technical notes, implementation plans, "best-practice" manuals, procedural guidelines)

PSD AS outputs are rarely standardized, either in terms of format or approach. An evaluation of ADB's PSD AS concluded that there is scope for greater standardization in many products (e.g., training seminars). The WBG's core diagnostic reports on the investment climate (Investment Climate Assessments, Doing Business and Getting Finance indicators) stand out as highly uniform products.

Project Selection, Management and Delivery

Selection Process

Several independent evaluations of donor-funded PSD AS programs indicate that the process of identifying and selecting projects is more ad hoc than the donors' PSD strategies would suggest, and that Quality at Entry (QAE) processes are weak.

- An evaluation of the EC's PSD AS found that project decisions were made because the choice seemed "evident" or was an extension of past Community support. The importance of sound diagnostic work before deciding where and how to intervene was underestimated.
- A 2007 evaluation of ADB's AS in all sectors found that AS formulation processes were inadequate: there was no formal guidance on the preparation of TA proposals; guidelines produced in 2003 were never finalized or adopted, and there were weaknesses in QAE processes. The role of the Staff Review Committee has diminished over time, and such meetings usually are waived.

Headquarters vs. field management

The trend among most donors seems to be to initiate and manage PSD AS -- particularly stand-alone AS that is not integrated with the organization's core activity -- from country or regional offices (Table 15). This is consistent with the trend in the IFC. Independent evaluations of several donor-funded programs have found similar advantages decentralizing AS management to the field, including better identification of needs and tailoring of projects to local conditions; quicker decision-making; opportunities for more intensive local capacity building; and personnel costs. On the other hand, headquarters management has some advantages over field management: AS projects are more likely to be aligned with the organization's AS strategy, in part because field staff are overloaded with operational tasks; and headquarters management has the advantage of better transfer of lessons learned across projects.

In-house vs Outsourced Personnel

Several donors rely heavily on consultants -- larger consulting firms as well as individual consultants -- to deliver AS (Table 15). Among those using this model are EIB, ADB, IDB, and the EBRD TAM program. The drawbacks of outsourcing have been recognized in several evaluations of AS programs.

A working group of the IDB found that AS had gradually changed from being a source of advice and assistance provided mainly by the IDB's staff into "project-based" packages of financing to be carried out by consultants. AS was thus something IDB funded but no longer "did". This left recipient countries to deal with the problems of managing consultants, and they were often overwhelmed.

Table 15. AS Management and Personnel

	Location of Project Management	Nature of TA Personnel
IFC	Compared to IFC investment personnel, a higher percentage of AS projects are managed from field offices (e.g., Facilities)	Compared to IFC investment personnel, a higher percentage of AS personnel are short-term consultants.
EIB	EIB headquarters in Brussels	Mainly international consultants; some in-house sector economists and engineers to assess and advise on individual projects
EC	PSD AS is increasingly delivered on a decentralized basis.	
EBRD	TAM: team is led by a Senior Industrial Advisor BAS: Overall management and support from headquarters in London; country operations managed from field offices	TAM: Experienced directors and senior managers from developed countries, contracted on the basis of individual projects BAS: local consultants who have undergone an accreditation process work directly with SMEs
ADB	Despite increased delegation to resident missions, AS projects remain predominantly delivered from ADB's headquarters in Manila.	With a relatively small core of professional staff, most of ADB's AS delivery is outsourced to consultants.
IDB		PSD AS is increasingly outsourced to consultants.

Source: interviews; EBRD (2004, 2007a).

Funding and Pricing Policy

Funding

Donors use several sources of funding for PSD AS: (i) multi-donor trust funds such as PPIAF and DevCo; (ii) single-donor trust funds such as the Japan Special Fund (JSF), an untied grant program of the Government of Japan; and (iii) internal resources contributed by the donor organization. The trend is in the direction of greater use of multi-donor trust funds to finance PSD AS. This, for example, is the case for both IDB and ADB, for example. For IDB, the composition of financing for non-reimbursable technical cooperation changed significantly during 1990-2001. From 1990 to 1994, the Fund for Special Operations (FSO) was the principal source of funding (54 percent of total non-reimbursable TC), followed by donor trust funds (34 percent) and the Multilateral Investment Fund (12 percent). From 1995 to 2001, the FSO represented 32 percent, donor trust funds 19 percent, and the MIF 49 percent. For ADB, trust funds are now a major source of AS funding, amounting to 38 percent of AS funding in 2006. In contrast, most of IBRD/IDA's ESW and AS is funded by internal resources (85 percent in FY06), with only a small share (15 percent) financed by trust funds.

Most donors find that pooled financing improves coordination with client countries' national development strategies, institutions, and procedures. One of the drivers for pooling is the 2005 Paris Declaration, which sets a target for 50 percent of AS flows to be coordinated behind national development strategies by 2010.

Recently, some donors have contributed internal resources to supplement external sources of funds. For example, in 2007, for the first time, EBRD provided €4.7m of the total of €15m mobilized for the

TAM/BAS program. Since 2004, IFC has contributed $840 million from IFC retained earnings to the Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS).

Most donors experience similar trade-offs and tensions with respect to funding sources. For single-donor trust funds, there may be tensions between the funding organization and the recipient organization in terms of sector or country priorities. Planning distortions may result from fund being accessed for areas of activity outside the priorities identified in country strategies, and multiple administrative procedures from different funding sources can add to the administrative costs of providing AS.

Pricing Policy

Provision of AS has often come as a "free good" provided to the recipient. In particular, PSD AS that is linked with the donor's core activity (e.g., preparation for investments) is usually offered on a completely non-reimbursable, i.e., subsidized, basis. This is the case with EIB, for example. In addition, bilateral donors, such as DANIDA, seldom require cost recovery from the client.

There are signs of some movement toward cost-sharing with the client, motivated both by the desire to increase client ownership, and by shrinking donor budgets. For the EBRD TAM/BAS program, the typical subsidy is 50 percent of the consultant cost, but some local BAS offices apply a different contribution ratio. For example, a lower client contribution may be applied in order to increase the incentive for SMEs to use consultancy services. For larger firms, the required contribution might be greater than 50 percent.

ADB addressed the issue of cost-sharing for AS operations in 2005 under its "innovation and efficiency initiative", which stated that the share of AS operations in a country's overall portfolio to be financed by ADB would be agreed upon during the preparation of the Country Partnership Strategy. Thereafter, the funding proposed for each AS project could vary, reflecting the sector and objectives of the AS, provided the aggregate portfolio ceiling is respected. Since then, ceilings have been established for 13 countries, ranging from 80 percent to 99 percent.

IFC's pricing policy for AS has evolved toward requiring greater contributions from the client. The current policy (as of January 2007) establishes the objectives and principles behind the requirement of client contributions: building client commitment; minimizing market distortions by avoiding crowding out private sector provision of services; and targeting subsidies to public goods. In practice, the policy has yet to motivate a significant increase in client contributions.

Monitoring and Evaluation Systems

Until recently, most donors did not subject their AS activities to rigorous M&E requirements. Few donors required project completion reports or ex-post project evaluations, either from the managing unit or from the agency's evaluation department. Even the monitoring of AS for management purposes was made difficult by the fact that AS costs were bundled with other activities, so it was not possible to report on them separately. For donors like EIB who provide AS exclusively for the purpose of preparing and implementing investments, it may not be cost effective to require separate AS evaluations.

In part because of the efforts of the Multilateral Development Bank Evaluation Coordination Group (ECG), monitoring and evaluation systems for PSD AS have begun to improve and become more consistent across donors. Most of the multilateral donors, including the IFC, now require a project completion report for TA (Table 16). The main issue with these evaluations is their lack of focus on outcomes. This

is mainly due to the fact that the AS project's performance indicators were mainly output-oriented from the design stage, and usually baseline data is not collected.

Most evaluation departments prepare independent evaluations of PSD activities or AS activities on an occasional basis. Among the better recent reports are the EBRD's evaluations of the TAM and BAS programs, the IDB's MIF evaluations, and DANIDA's recent meta-evaluation of private and business sector development interventions.

Table 16. Monitoring and Evaluation Systems for PSD AS

Organization	Self Evaluation	Independent Evaluation
IFC	Recent introduction of Project Completion Note for AS Recent introduction of activity-based costing	IEG validation of PCRs External evaluations of Facilities are conducted at the request of donors. Some external evaluations of AS activities have been conducted, mainly in the A2F and CA business lines.
ADB	Technical Assistance Performance Reports (monitoring during implementation) Technical Assistance Completion Reports (evaluation 6 mo. - 1 yr. after project completion)	Operations Evaluation Dept. evaluations of selected TA projects Occasional Special Evaluation Studies (latest SES on TA in 2007).
EBRD	BAS project evaluations (output indicators) TAM project evaluations (including ratings)	External evaluations commissioned by donors EBRD Evaluation Department evaluation of BAS in 2007 EBRD Evaluation Department evaluation of TAM in 2004
EC	Ex-post evaluations are prepared on an annual basis at the sector level (but PSD is not defined as a "sector").	Occasional thematic evaluations. Most recent PSD evaluation prepared in 2005.
IDB	Non-reimbursable Technical Cooperation (TC) projects are not currently included in IDB's Project Performance Monitoring Report System (PPMR) and Project Completion Report (PCR) system. For the Multilateral Investment Fund (MIF), the PPMR system, an annual report on project execution, was introduced in 2000. In general, however, the projects do not have impact evaluations or ex-post evaluations.	Occasional PSD thematic evaluations and MIF evaluations.

Source: Donor interviews and websites

Results and Lessons Learned

Findings from recent evaluations

Independent evaluations of PSD AS activities were conducted recently for EBRD, ADB, EC, and IBRD/IDA. A brief summary of the findings of these evaluations follows.

EBRD Business Advisory Services. A 2007 evaluation of EBRD's Business Advisory Services (BAS) concluded that BAS projects were successful overall, and were consistent with EBRD's transition impact objectives. BAS consultants also have benefited from involvement with BAS, not just financially but also in terms of capacity-building. However, the evaluation found that BAS impacts largely stop at enterprise level, and the population of BAS enterprises is small in the context of national economies. Benefits that accrue to consultants are a by-product of the BAS process and are one-off rather than a targeted exercise in capacity-building.

The evaluation also found that overall true market development activities for the program overall were scant. Establishing the link between number of projects and market development is hampered by loose program design and lack of verifiable indicators at the outset. When market development did take place, it was not part of a strategic approach to addressing the barriers to consultancy market development.

In terms of demonstration effects, the evaluation found that few BAS projects prove the case for new, innovative or "atypical" types of consulting. In-depth interviews suggested that 87 per cent of projects could be thought of as "standard", so they would be unlikely to demonstrate the benefits of new types of services. In addition, most BAS country programs make little attempt to disseminate their results.

EBRD Turnaround Management. The 2004 Turnaround Management (TAM) evaluation reported that about 1,500 TAM projects were carried out between 1998 and 2002 in all of the EBRD's countries of operations, except Turkmenistan, involving over €96 million in donor funding. The evaluation found that TAM has been highly successful. The majority of the companies visited acted on TAM's advice and made significant changes to their businesses. The vast majority of companies visited reported higher capacity utilization, labor productivity, sales, market share and profits. Nearly all the firms assisted agreed that they were materially closer to being profitable, stand-alone private companies than they would have been without TAM. An issue of concern is that TAM is totally dependent on donor funding, and the unreliability of this funding threatens the program's sustainability, constrains its ability to meet the demand for its services, and reduces its efficiency.

ADB Technical Assistance. A 2007 evaluation of ADB's technical assistance in all sectors found that nearly three quarters of sampled TA projects, in five case study countries, achieved or exceeded their intended outputs. Executing agencies reported that training had resulted in some improvement in staff performance and that recommendations had been at least partly acted on.

The evaluation also found that:

- More needs to be done to improve coherence between lending and non-lending activities.
- Serious efforts need to be made to increase country ownership and, in appropriate cases, to delegate more authority and accountability to EAs.
- More needs to be done to recognize in TA operations that there is a wide range of institutional capacity in Asia-Pacific countries and across sectors within countries. ADB's current one-size-fits-all approach to TAs needs to be reconsidered.

- Isolated short-term inputs are not appropriate in areas such as policy reform, change management, and capacity-building. These require longer-term interventions, assistance, or engagement by ADB.
- To improve process efficiency, AS approval and administration procedures could be simplified.
- While there was some evidence of coordination with other funding agencies, in some cases there was also evidence of competition for specific types of AS projects, particularly between ADB and the World Bank.

EC PSD activities in third countries. A 2005 evaluation of the EC's support for private sector development in third countries was quite critical of EC's PSD interventions. It found that: (i) program objectives were not systematically geared toward achieving the objectives stipulated in the EC PSD strategy; (ii) key constraints bearing on success were not sufficiently addressed; (iii) most meso- and micro-activities lacked sufficient outreach and were not targeted on the most adequate beneficiaries, and (iv) lessons from the past were inadequately taken into account.

AS has generally weak performance on efficiency. There is a lack of transparency regarding how much AS programs cost, whether the benefits justify the expenditure, and whether donors are getting value for money.

IBRD/IDA TA and ESW. The recent IEG-WB evaluation of the World Bank's TA and economic and sector work (ESW) in all sectors concluded that most ESW and TA met their stated objectives to at least an average extent, although their effectiveness was greater in shaping Bank lending and strategy than in providing support directly to client countries. The indirect effects of ESW and TA on client countries -- through Bank lending -- were greater than the direct effects. Between 65 percent and 80 percent of users of Bank ESW and TA in client countries gave ratings of average and above on the extent to which ESW and TA met their stated objectives; between 74 percent and 87 percent of such users in the Bank (task team leaders for loans and strategies) gave such ratings.

In the PSD sector, Investment Climate Assessments (ICAs) were most often named by survey respondents as having informed policies. In Malaysia, changes in the labor law and in the registration of property were attributed to the ICA. It has also led the government to establish a committee to ensure that deregulation and improvements in public service delivery were carried out smoothly. In Serbia, the ICA was credited with the country's regaining momentum in the privatization process and in attracting foreign investment, among other changes. In Guyana, the ICA was cited as having informed the country's National Competitiveness Strategy.

Lessons Learned

Some common lessons have emerged from independent evaluations of PSD AS:

- Broader and more sustainable results are obtained from interventions at the macro and meso level rather than the micro level. Firm-level support is low in outreach, which makes it difficult to achieve broader PSD impacts beyond the beneficiary firms.
- Interventions at all levels should be targeted more at local market deficiencies identified by an assessment of the actual conditions. This applies to the policy and regulatory framework, public and private institutions, and markets. Some progress has been made by developing tools for assessing the business environment, but more needs to be done to develop methodologies for assessing the quality of institutions and the functioning of markets.

- Interventions to improve the business environment should be encouraged, as long as there is sufficient government commitment. Support to intermediary organizations can be a way of influencing public policy for the private sector.
- Long- or short term support within broader programs, leads to better and more sustainable outcomes.
- Despite the fact that no one-size-fits-all approach to PSD interventions, it is important to adopt a methodical procedure for selecting areas of intervention in a country, which should at least include the following steps: a critical assessment of the priority areas of interventions; selecting an area in which the donor has a comparative advantage; and an assessment of whether the pre-conditions for intervening in a given area have been met.
- Assumption of ownership, involvement of local actors, and building of institutions in recipient countries on the basis of the transfer of regulatory, facilitation and intermediation competences is a necessary condition for sustainability.

Conclusions: IFC's Relative Strengths and Comparative Advantages

Compared to other donors that provide PSD AS, IFC appears to have the following strengths:

- **Well-designed diagnostics.** The IFC, along with other units in the WBG, has been a leader in developing quantitative indicators of the quality of the investment climate, the ease of doing business, and the ability of firms to access finance. These efforts provide the means of assessing initial conditions in client countries to guide Advisory Services design as well as allow for evaluation of results. They have been appreciated by client countries and are used by other donors as well.
- **Global knowledge.** The ability to mobilize the best global expertise in specialized areas, along with knowledge of international best practice that can be persuasive with clients.
- **Pricing policy:** Although some donors (notably EBRD and ADB) have made progress in defining cost recovery policies, the IFC is relatively advanced in its thinking in this area.
- **Monitoring and evaluation:** Most donors do a poor job of separating AS from other activities for purposes of monitoring, defining performance indicators for AS, and conducting ex-post evaluations. Although some donors have begun to adopt better M&E systems for AS (again, EBRD and ADB), IFC is probably ahead in implementing the system.

Like most donors, IFC's weaknesses mostly relate to the divergence between strategy and practice. AS are often selected on an ad hoc basis rather than being closely aligned with country and sector strategies, and synergies across the World Bank Group and with other development partners are not fully exploited. The recently-adopted pricing policy has not resulted in a significant increase in client contributions -- the share of projects with a client contribution has increased only slightly since the policy was adopted. And although the M&E system for Advisory Services establishes monitoring, self-evaluation, and independent evaluation processes, the usefulness of the system is limited by the quality of performance indicators being used. As it stands, most indicators measure outputs (at best), not outcomes, and baseline data is rarely collected.

Looking across all types of donors -- those that lend and invest directly to the private sector, like EIB, EBRD, the IDB's IIC, and IFC; those that lend to governments, like IBRD/IDA and the regional develop-

ment banks; and bilateral donors that do not lend or invest directly -- it is possible to propose areas in which IFC may have advantages relative to other donors in the delivery of AS:

- A strong "matrix" of headquarters and field offices that allows for synergies between staff with specialized expertise and those with local knowledge.
- Strong analytical capacity within the World Bank Group, giving IFC a potential comparative advantage in Advisory Services strategy and project design.
- Investment and lending operations that can be linked with Advisory Services, helping to improve the performance of both types of activities (although this is an advantage shared with EBRD, EIB, and the IDB's IIC).
- Ability to take a leadership role in coordinating PSD AS among donors, in part because of its global presence and also because it receives funding from many of the same donors.

The other side of the coin is that IFC does not have a comparative advantage, relative to other donors, in some areas:

- Macroeconomic policy, in which IBRD/IDA, the IMF, and some of the Regional development banks have greater analytical capacity and more appropriate instruments.
- Some meso-level interventions, in particular institutional development, for which the Regional development banks tend to have a greater understanding of country context and better partnerships with clients.
- Longer-term capacity-building, which many bilateral donors are better able to provide.
- The direct provision of advisory services in countries where markets for these services are relatively well-developed. With the exception of low-income and post-conflict countries, direct support may not add value, can crowd out private providers, and can give beneficiaries an unfair advantage over their competitors.

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