

Operations Evaluation Group

OEG independently evaluates IFC's investment projects and programs, as well as the Corporation's related strategies, policies, and procedures. OEG reports to IFC's Board of Directors, which discusses its evaluations. Many evaluations are carried out jointly with OEG's counterparts in the World Bank and MIGA.

In FY05, the Board discussed evaluations of IFC's project development facilities and the investment climate for private sector development. OEG also completed evaluations of IFC's operations in Pakistan, Romania, transition economies, and the leasing sector. OEG is working to harmonize evaluative standards and reporting so that stakeholders can compare the performance of various multilateral development banks according to appropriate and transparent standards. A working group of these institutions has established good practice standards, and IFC's evaluation system is considered the most consistent with these standards.

Findings from OEG's Annual Review

Each year, IFC's investment staff evaluate a representative random sample of investments that have reached operating maturity. OEG analyzes the results and presents its findings in its Annual Review. This year's review examined whether IFC is achieving its mission: to what extent it is promoting sustainable private sector investment in developing countries, helping reduce poverty and improve people's lives (see figure on opposite page). Key findings include the following.

An Upward Trend in Some Project Indicators

The trend since 2000 suggests an improvement in project success rates for development outcome, investment outcome, and IFC work quality. The environmental, social, health, and safety performance of evaluated real sector projects has not, however, improved in line with other development impacts, thus constraining development outcome quality. OEG has recommended that IFC move forward with the mainstreaming of environmental and social sustainability within investment departments, and management is making progress.

IFC Invested More, and Achieved Better Outcomes, in Its Strategic Sectors

Since making them a priority in 1998, IFC has steered its resources toward the financial markets, infrastructure, information technology, and social sectors, increasing their share of its total commitments to 55 percent in FY05. This growth was achieved primarily in the finance and insurance sectors. Overall, the evaluated projects in these strategic sectors have yielded higher-than-average success rates on development and investment outcome.

The Risk Profile of Recent Commitments Improved

New IFC commitments generally feature lower risk intensity than investments in the mature, evaluated sample that was approved in 1996–1998. This reduced risk resulted from external market conditions that have driven better business toward IFC, as well as from management's initiatives, introduced in 1998, aimed at enhancing work quality.

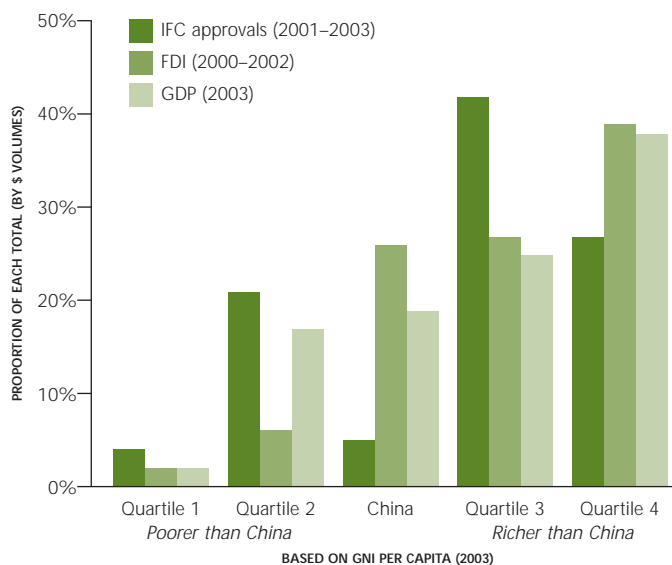
IFC Pursued Its Frontier Strategy

IFC first articulated its frontier country strategy in 1998, recognizing the need to stimulate capital flows in higher-risk countries and in pioneering or underserved sectors. Since then, IFC has successfully steered resources toward countries where its value added and poverty reach are greatest. IFC's investments are more concentrated in poorer countries, as compared to these countries' share of overall gross domestic product and foreign direct investment (see figure below).

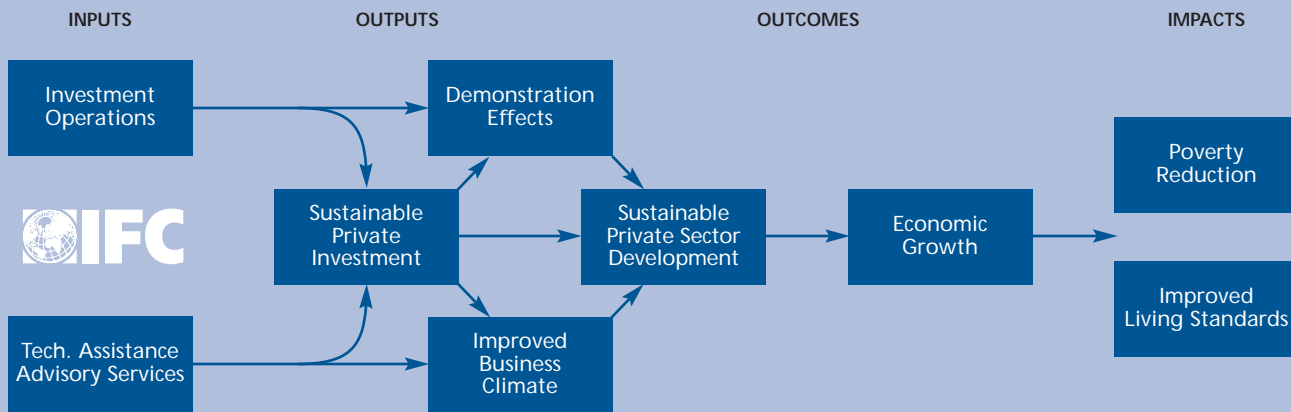
Historically, the best development and investment results have been achieved in countries that have improved their business climates and graduated into medium- or low-risk environments. As a result of this graduation, the frontier country group (high-risk or low-income countries) is now significantly smaller than it was in 1998, has less absorptive capacity, and receives a smaller share of private capital flows.

Further information on OEG can be found at: www.ifc.org/oeg.

IFC IS MORE CONCENTRATED IN POOR COUNTRIES THAN ARE GDP AND FDI



How IFC Operations Help Reduce Poverty and Improve People's Lives



A Project with a Highly Unsuccessful Development Outcome

The project was a pilot agency credit line serving wood processors and furniture manufacturers in a postconflict transition economy in Europe. These companies were previously part of a state-owned conglomerate that had collapsed, leaving the companies without financial, production, marketing, or sales support.

Project Business Performance: *Unsatisfactory.* IFC provided technical assistance to help the companies build management capacity in preparation for a planned privatization. This support proved insufficient to bridge their lack of expertise, and problems were compounded by difficult trading conditions. All the companies financed through the agency line consequently fell into financial distress.

Economic Sustainability: *Unsatisfactory.* The project aimed to regenerate the country's wood sector, which had traditionally benefited from skilled craftsmen and a natural supply of high-quality wood. None of the companies have proven a sustainable source of employment, tax revenues, or added value. Their expected contribution to postwar reconstruction has been limited.

Environmental Impacts: *Unsatisfactory.* The environmental performance of the companies did not meet prescribed standards. For example, one furniture manufacturer was found to be polluting local air quality, soil, and surface and underground waters.

Private Sector Development: *Unsatisfactory.* No privatization occurred due to lack of interest from domestic and foreign investors. Moreover, the agency line failed in its objective to help build expertise within the agent banks to support future private enterprise in the country.

A Project with a Highly Successful Development Outcome

The project was the installation of a new digital cellular network in an Asian country to provide 55 percent coverage by area and increase access to telephony services among poor rural communities. It aimed to provide a viable and affordable infrastructure in a country that had one of the lowest telephone density rates in the world and a waiting time of more than 10 years for a fixed telephone line.

Project Business Performance: *Excellent.* The project is a huge commercial success. Market uptake was overwhelming, and the company responded by making technical adjustments to its network, which doubled its capacity. After four years, the company has achieved a subscriber base of nearly half a million, more than twice the level anticipated.

Economic Sustainability: *Excellent.* The project has yielded outstanding returns to the economy, including taxes and duties paid to government, revenue-sharing payments to the regulator, license fees, and lease payments to a railway company for using its fiber-optic backbone. It has a village phone program that serves more than 50 million people nationwide and has become an effective model for increasing rural connectivity.

Environmental Impacts: *Satisfactory.* The company is committed to sound environmental, social, health, and safety performance and is in compliance with World Bank Group guidelines.

Private Sector Development: *Excellent.* The project increased competition in the cellular market, resulting in lower tariffs, increased range, and improved quality for users. It also provided essential infrastructure for more general private sector development. Its village phone program helped create microenterprises in rural areas by way of wireless pay phones owned and operated by local women.