

Results through Partnerships

IFC achieves higher development outcome success rates when working with existing clients. Our repeat clients tend to be characterized by high-quality management, quality products and services, and sound corporate governance. IFC balances developing new client relations and deepening development results by working with existing clients.

In private banking, the advantages of repeat business, such as lower risk-profiles and reduced processing costs, are well established. Repeat investments make up a significant proportion of IFC's work: In recent years about half of new investments went to existing clients. As a financial institution with a development mandate, IFC seeks not only to support repeat business, but it also aims to help new clients with the aim to contribute to private sector development in developing countries.

How should IFC balance the benefits and opportunities of reinvesting in existing clients – such as achieving higher development impact or assisting clients to grow into responsible global players - with reaching new clients and new markets? To help inform IFC's course as it balances reaching new clients with the potential advantages of doing repeat business, we take a closer look at IFC's repeat business: its development results, potential drivers of performance, and what characterizes our repeat clients.

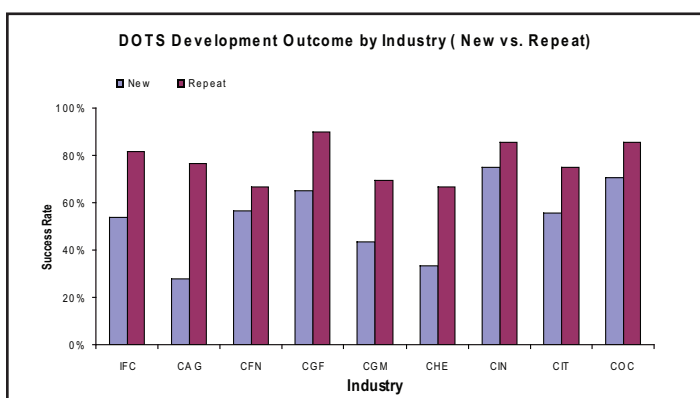
Notes on the analysis

We assessed all active IFC investments that were approved between 1998 and 2003. These investments are generally sufficiently mature to be adequately evaluated. We analyze information captured in IFC's Development Outcome Tracking System (DOTS) as well as in-depth evaluations validated by IFC's Independent Evaluation Group (IEG). The total DOTS sample comprised 469 investments, of which 159 projects were repeat business. 135 in-depth evaluations complemented the DOTS analysis, focusing on the merits and results of repeat business.

Stronger development results with repeat clients

A clear finding of our analysis is that IFC achieves substantially stronger development results through repeat investments than with new clients. Repeat investments generate high development outcomes 82% of the time, compared to 54% for new business. Better results with repeat clients are consistently achieved across all IFC sectors and regions.

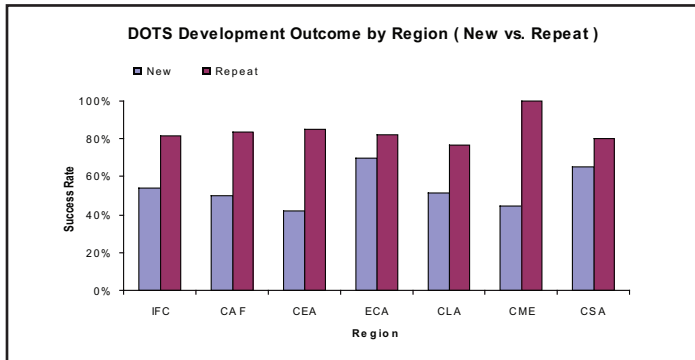
Figure 1:
Higher success rates for repeat business across industries



IFC industry departments

- CAG – Agribusiness
- CFN – Private Equity and Funds
- CGF – Global Financial Markets
- CGM – Global Manufacturing and Services
- CHE – Health and Education
- CIN – Infrastructure
- CIT – Information and Telecommunication
- COC – Oil, Gas, Mining, and Chemicals

Figure 2:
Higher success rates for repeat business across regions



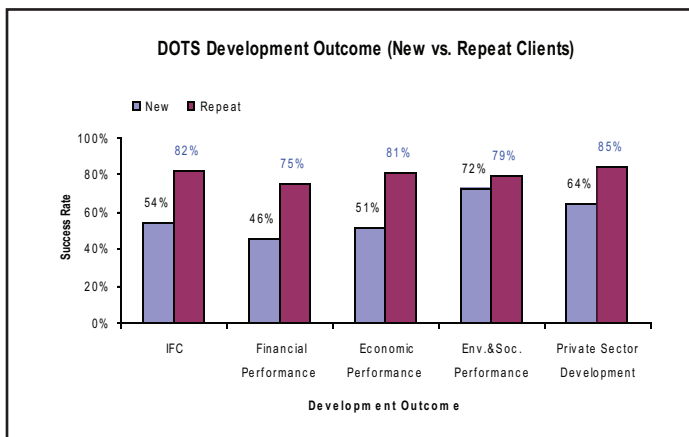
IFC regional departments

- CAF – Sub-Saharan Africa
- CEA – East Asia and the Pacific
- ECA – Europe and Central Asia
- CLA –Latin America and the Caribbean
- CME – Middle East and North Africa
- CSA – South Asia

What characterizes repeat investments?

Repeat business performs better for all four performance dimensions that support IFC’s development outcome rating. What makes repeat business more successful? Our analysis shows that repeat business performs better on all four performance dimensions measured in DOTS: the outcome ratings of financial, economic, and environmental and social performance are higher with repeat clients, as are broader private sector development impacts (Figure 3). Performance differentials are particularly high for financial and economic performance.

Figure 3:
Better development results across performance dimensions



IFC’s project performance dimensions

In order to be considered a development success, an IFC project must:

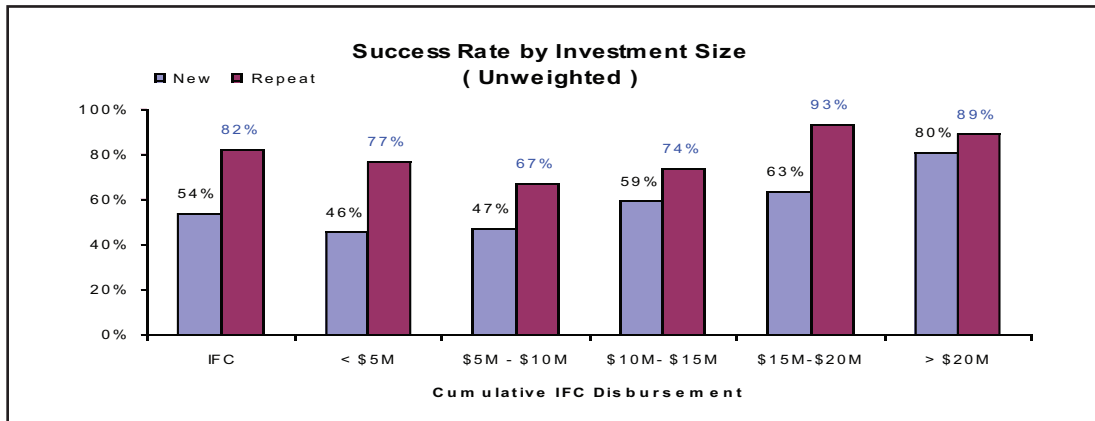
- Be profitable (its financial return exceeds the average cost of capital),
- Generate benefits to society above and beyond those to the financiers (usually, the economic rate of return is expected to exceed 10%), and
- Be socially and environmentally sustainable (meet or exceed our performance standards).

We also assess a project’s broader private sector development impact (e.g. a project’s demonstration effects.)

Superior results irrespective of project size. Projects with repeat clients tend to be larger than those with new clients: about two thirds of repeat investment is larger than \$10 million compared with just under a third of investments in new clients¹. Given development results are stronger for IFC’s larger investments, we take a closer look at development results for repeat investments by investment size. Can the relative success of repeat business be explained by investment volume? As figure 4 shows, repeat business generates higher development outcome success rates regardless of investment size, and in fact small projects tend to do particularly well.

¹ 68% of repeat business comprised projects larger than \$10 million, compared to only 31% for new business.

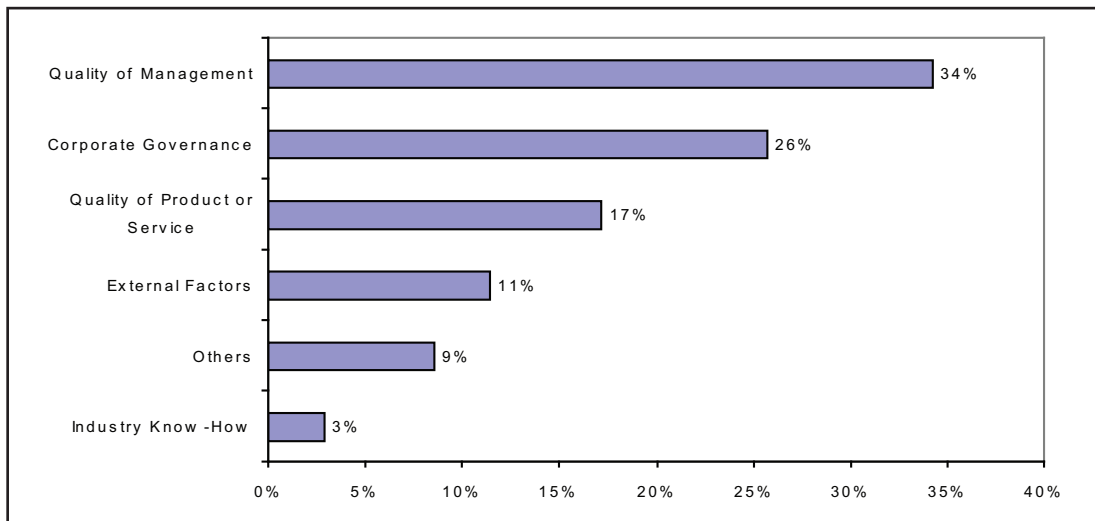
Figure 4:
Higher success rates are achieved for repeat business across all investment sizes.



What drives superior performance? A look at client characteristics

Repeat clients tend to be characterized by better management, high quality products and sound corporate governance. IFC's ex-post evaluations, which are independently validated by IFC's Independent Evaluation Group (IEG) assess different factors of project success. An analysis of evaluations of repeat business shows that high quality of management (34%), sound corporate governance (26%) and high quality of product or service (17%) are generally characteristics of successful repeat clients.

Figure 5:
High-quality management and good corporate governance characterize repeat clients.



Quality of management

The evaluations show that IFC's repeat clients are often characterized by strong management, and have proven relatively resilient to external shocks, such as financial crises.

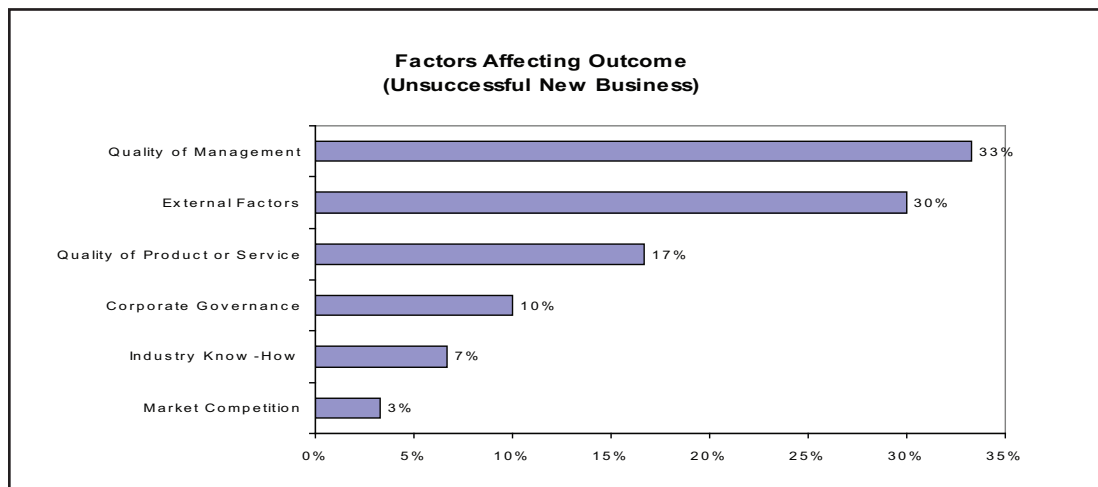
Project example: Weathering the Asian financial crisis

In 2000, IFC invested in an existing client bank in Indonesia to assist it in weathering the consequences of the Asian crisis, and in becoming a larger player in a more consolidated post-crisis banking sector. The country's banking system faced wide spread insolvency, with non-performing loans expected to peak at 80% of total assets. Our client's institutional capacity was sound and its management strong, and we helped the

bank improve its corporate governance and disclosure standards. Our client grew faster than initial projections and managed to maintain prudence while pursuing a high growth path. The bank has created remarkable business value, and played a distinctive role in the banking sector and overall economy, serving as a model for private sector development.

Quality of management is also an important driver of project performance for new clients. An analysis of investments in new clients that were rated unsuccessful (46% of new business between 1998 and 2003, compared with only 18% of repeat business) shows that inexperienced management or inability to deal with unexpected external factors such as demand shifts or volatile markets affects the project outcome unfavorably.

Figure 6:
Poor quality management limits project success



Quality of product or service

IFC's repeat clients often offer high quality products and services. They tend to adopt innovative methods and cutting-edge technology with the specific aim to position their business as market leaders. Efficient production systems allow them to outperform their competitors in a given industry or region. They are more likely to have strong corporate governance with transparent disclosure practices and sound operational policies, positively affecting both their financial performance and development results.

Implications

IFC's repeat business generates superior development results. Drivers of development success are high quality of client management, sound corporate governance and quality good or service, which translate into strong financial and economic, and solid environmental and social performance. IFC, however, recognizes the importance of building new relationships, and we aim to strike a balance between nurturing existing client relationships and reaching out to new ones.

- **Importance of due diligence:** Our analysis highlights the importance of IFC's due diligence in selecting new clients. It is important to identify proactive clients with strong operational and financial management teams that can benefit from IFC's support and partnership.
- **Graduating from IFC:** Given IFC aims to provide value to clients that is not otherwise available in the marketplace, repeat clients' superior development results may not always be sufficient grounds for further investments where a client can access funds at similar terms in the market, and IFC's expertise is no longer needed.
- **Partnerships as opportunity:** The findings of this analysis support IFC's strategy to partner with select emerging market companies. Such partnerships can present the opportunity to build on successes to tackle specific development challenges, for example developing higher environmental and social standards in a specific industry in partnership. Development results can be further improved by helping existing clients to become regional or global players, generating sustainable benefits for their societies and acting as a role model of successful responsible investment.