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Press Release

The Independent Evaluation Group Releases Report on IFC's Development Results for 2008

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Johannesburg, South Africa, July 30, 2008 -- Performance of IFC-supported private sector operations in developing countries has improved in the last three years, says a new study released today by the Independent Evaluation Group (IEG) of the International Finance Corporation (IFC) – a member of the World Bank Group. This overall outcome is driven by better results in two regions with a large share of IFC operations -- Latin America and Europe and Central Asia. However, project performance lagged in Asia, and the Middle East, and in Africa, where IFC has scaled up its operations in recent years while facing ongoing challenges with respect to business climate and sponsor quality. Projects showed strong results in financial markets and infrastructure sectors but weak results in information technologies and general manufacturing.

According to IEG's *Independent Evaluation of IFC's Development Results 2008*, 71 percent of projects met or exceeded IFC's development and market benchmarks in 2007 (compared to about a half in 2005). The study also found that the development effectiveness of projects did not come at the expense of IFC profitability –nearly 60 percent of all projects (74 percent by volume) combined high development outcomes with satisfactory financial returns, while 26 percent (17 percent by volume) combined low development outcomes with low financial returns.

The study noted continued shortcomings in adherence to IFC's environment and social performance standards by IFC-supported project companies in Africa. In this report, IEG took a first detailed look at IFC's "additionality" – its unique role and contribution in providing and catalyzing financing otherwise not available, due to market imperfections; helping to improve corporate operations, governance, and environmental and social standards -- compared to that of other financiers. The findings indicate that in most cases, IFC delivered at least one form of *financial* additionality in terms of longer tenor, grace period, local-currency finance, pioneering or innovative structures, and countercyclical finance; or *operational* additionality – support for business strategy,

operations management, and new business development; or *institutional* additionality in terms of standards of corporate governance, environmental and social sustainability and better public-private risk allocation.

While IFC's additionality has been mostly financial to date (85 percent of all projects evaluated), IFC's operational and institutional additionality was not insignificant (30 percent and 35 percent of projects evaluated, respectively). The quality of IFC's additionality also varied substantially by region and across sectors, being evident in Latin America and Europe and Central Asia, but much less in Africa and the rest of Asia. For example, in a project that aimed at supporting a West African bank to attract more foreign currency financing, IFC was not successful in catalyzing other sources of finance, and the bank continued relying on subsidized loans. In another project in Africa, however, the quality of IFC additionality was strong -- IFC's loan to a coffee production company in a southern African country provided the much-needed working capital in a country and sector where long-term financing is extremely scarce, and IFC supplemented this contribution with specialist advice on farming practices and business restructuring.

Noting the strong observed connection between IFC additionality and projects' development impact, IEG suggests that IFC will need to focus much more on its additionality in all lagging regions and sectors. "IFC's sector, country and regional strategies have not sufficiently addressed the institution's additionality. Going forward, to help regions and sectors with lagging performance, IFC needs to map out its unique role and contribution in sector and regional strategies and develop guidelines and incentives for operational staff to better identify and ensure its delivery in projects," said Marvin Taylor-Dormond, Director of IEG.

Vinod Thomas, Director-General of Evaluation for the World Bank Group, emphasized, "Close attention to work quality and portfolio risk management continues to be crucial as IFC invests heavily in newer and riskier markets, especially in conditions of a downturn in global economic growth. This holds especially true for Africa -- a region where IFC has to revamp efforts to ensure that the overall results, and environmental and social shortcomings of projects, are addressed."

To view IFC Management's response and download the report, please visit:

<http://www.ifc.org/ieg/iedr2008>