



# Chairperson's Summary: Committee on Development Effectiveness (CODE)

**T**he Committee on Development Effectiveness (CODE) considered the report, *Independent Evaluation of IFC's Development Results 2009: Knowledge for Private Sector Development*, prepared by the Independent Evaluation Group (IEG) of the International Finance Corporation (IFC), together with the draft Management Response (MR). The Advisory Panel Statement on the IEG report was circulated for information.

**Overall Conclusions.** The Committee commended IEG for a comprehensive evaluation and generally agreed with the main thrust of its recommendations. It was also pleased that overall, IFC achieved high development results in most of its investments and advisory services (AS) operations. Some members asked management to present an action plan for implementing these recommendations. Members agreed on IEG's recommendation for IFC to be prepared to address the many challenges ahead given the current global financial crisis, including balancing between the need to protect the portfolio, the need to enhance the quality of AS, and the need for IFC to play a counter-cyclical role. There were different opinions on whether there should be a separate strategy for IFC AS or whether it should be embedded into IFC's corporate strategy. Related to this, members raised comments and questions on the integration of AS and Investment Services

(IS); and on IFC's high reliance on newly hired staff and outsourcing the provision of AS. There were varied views on the pricing policy and the possible impact of changing this policy on IFC's business model. For the next IEG report, there was a suggestion that IEG evaluate AS embedded in investments in the financial sector and assess how this knowledge is disseminated through implicit informal channels.

**Next Steps.** The Committee recommended that the Board consider the IEG report and MR without a meeting, i.e., on an absence-of-objection basis. Management will prepare a Supplemental Note to the upcoming IFC Road Map paper to expand on some of the comments and questions raised at the meeting.

The following main issues were raised at the meeting:

**IEG Report.** Further elaboration was sought for IEG to provide specific suggestions for improving IS and AS performances in East Asia and Pacific, Middle East and North Africa and Sub-Saharan Africa, where progress lagged. IEG replied that IFC needed to improve appraisal and structure quality in East Asia and Pacific and Sub-Saharan Africa, and supervision quality in Middle East and North Africa. IFC also commented that results in East Asia and Pacific were affected by downswings in the information technology industry, while business environment issues affected results in Africa, and difficult country conditions in 2001 and 2002 affected results in Middle East and North Africa.

**Crisis Context.** Members encouraged IFC to protect its portfolio and the quality of its AS during the current global financial crisis, and to incorporate lessons learned from past crises. They also encouraged IFC to play a counter-cyclical role and to be more innovative by including restructuring and financial engineering of enterprises, as well as designing innovative instruments such as guarantees. There were also comments on the impact of the current crisis on investments and AS, given the IFC's increased decentralization.

**Advisory Services.** Some speakers commented on the bundling of AS with IS; the proportion of AS as an independent product line and complement to IS and the possible impact of relying on trust funds to finance AS. They queried how to balance and improve IFC's organizational alignment, which currently relies on a dispersed set of new staff and short-term consultants to deliver global knowledge. In this regard, one member felt that it was possible to use in-house knowledge to carry out IFC's core business, while outsourcing the new areas of knowledge in which IFC did not have enough skills. Management indicated that about 20 percent of AS is linked to investment services. It also noted that intense participation of both staff and consultants was part of IFC's business model. Another member emphasized the

importance of IEG's validating the effectiveness of the IFC AS business model moving forward.

Members stressed the importance of developing clear coordination mechanisms and incentives between IFC and International Development Association (IDA)/International Bank for Reconstruction and Development (IBRD), within the World Bank Group, and with other multilateral institutions based on their respective comparative advantages. One member agreed on the need for IFC to set out an overall strategy for AS, as recommended by IEG, and concurred with the Advisory Panel's recommendation to develop "a robust and integrated plan beyond just the strategy" for AS. Another member felt the AS strategy should be reflected in the IFC's Road Map. Management noted that IFC has a corporate strategy, including both investments and AS.

**AS Pricing Policy.** Some members disagreed with IEG's recommendations to move toward value-based client contributions. They were concerned that it may negatively affect the demand for IFC's AS, especially in IDA and conflict-affected countries. They also cautioned against over-emphasizing fee-based services, especially because part of the AS is to support governments in providing public goods and improving investment climate. Some agreed that there were positive aspects of pricing, such as demand discipline or revenue that might enhance the sustainability of AS. To this end, members asked management to consider such changes carefully. Management noted that the primary goal of the pricing policy was to strengthen client commitment to implementation, and to ensure that any subsidies were justified by the balance of public and private benefits. Management noted that it will clarify aspects of the pricing policy in the revised version of the Management Response.

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Jiayi Zou, Acting Chairperson