



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

On April 25, 2007 the Committee on Development Effectiveness (CODE) met to discuss the Independent Evaluation Group–IFC (IEG) report entitled *Independent Evaluation of IFC's Development Results 2007: Lessons and Implications from 10 Years of Experience* and the *Draft Management Response*.

## Summary of Evaluation Report

This tenth IEG annual review of evaluation findings took stock of the performance of 627 investment operations approved during 1991–2001 and evaluated in 1996–2006, and drew on other evaluative materials to highlight lessons and strategic implications for IFC going forward. The report's main findings were: (i) 59 percent of IFC-supported projects (65 percent by volume) achieved high development ratings at the project level; (ii) development outcomes and IFC profitability tend to go hand in hand; (iii) five factors—changes in business climate; type of industry sector; quality of the sponsor; level of product market, client company, and project type risks; and IFC work quality—have significantly influenced the development outcomes of IFC-supported projects; and (iv) IFC has generally made sound strategic choices.

IEG recommended that IFC should: (1) develop a deeper, more differentiated country approach;

(2) place emphasis on rural development, especially through support for agribusiness and rural microfinance projects; (3) pursue new incentives and mechanisms to enhance cooperation with the Bank in areas of synergy; (4) manage the frictions resulting from a combination of the decentralization process, scaling up of operations, and improving work quality; (5) ensure sound risk management systems, and develop risk mitigation products for clients, to cope with the risks emanating from the next correction in the global financial market; and (6) strengthen the capacity for evaluation and its application.

## Draft IFC Management Response

Management appreciated IEG's evaluation, and agreed with the general direction of its report's recommendations. It took note of the overall IEG finding that IFC has had positive development impact in most of its projects and profitable investment operations overall, and has made sound strategic

decisions over the years. Management also noted the report's findings that quality at entry of recent commitments is likely to have better outcome than the evaluated sample, and the positive correlation between development impact and profitability. Management agreed on the importance of coordination with the Bank. It informed the meeting of its plans to hold an internal workshop to further consider the IEG's findings and recommendations, including the improvement of IFC measurement and evaluation system.

### Overall Conclusions

Members commended IEG for the useful and informative report, and noted Management's general concurrence with the recommendations. They were reassured by Management that IFC's strategic directions incorporated the lessons distilled by IEG. One main issue discussed was measuring development impact and the related perceived trade-offs with profitability. While acknowledging the ongoing efforts in this area, speakers also commented on the need to improve the existing methodology to capture broader impacts, beyond financial and economic results. CODE noted that ex-post IFC profitability and development impact have tended to go together but also remarked on the IEG statement in the report that implies IFC support was limited for projects where there was a trade-off between the two.

CODE also considered risk mitigation instruments, and relative performance of equity vs. loan investments. Other issues discussed included the variability across sectors and regions, small vs. large projects, and aggregation of indicators to country or sector portfolios. Specific comments and questions were raised about IFC's role in middle-income countries (MICs), environmental and social practices, performance of intermediary operations, and evaluation criteria including those used for assessing additionality. Several speakers remarked on the expanded decentralization efforts, its implications on work quality including during the transition, and the challenges to management and Board oversight. It was hoped that decentralization would contribute to country

focus. There were also comments on the different role of Country Assistance Strategies (CASs) in the Bank and IFC, the possibility of strengthening joint CASs, and the importance of paying due attention to private sector development in the overall Bank Group strategy.

### Next Steps

Since the main topics of the IEG evaluation were central to the discussion of IFC strategic directions, CODE recommended that it be considered by the Board under an absence-of-objection procedure (without a meeting). For the future, members requested that the schedules be set to allow CODE to discuss the IEG report well before the discussion of IFC's strategic directions.

The following main issues were raised during the meetings:

**Development impact.** Speakers were generally satisfied with the overall positive link between developmental impact and profitability. However, they also took note of low development impact and low investment return in almost one-third of projects, and asked whether performance was linked to work quality, particularly at approval and supervision levels. Questions were also raised on how to address trade-offs between development and investment return. A few speakers sought more information on outsourcing supervision in projects with financial intermediaries. *Management pointed out that work quality has been improving in recent years based on IEG's report. Management also explained that the case of less than satisfactory work quality in the past was due to a number of reasons, including exogenous factors and certain opportunities or risks not being captured at the outset. Management also remarked that the critical stage for identifying development impact is project appraisal. Management indicated that IFC considers not only development impact, additionality, and financial viability, but also other factors such as quality of sponsors, or reputational risks.*

A number of members were concerned that the current methodology for measuring development

impact was heavily focused on financial and economic results; there was a need to deepen assessment of qualitative impact; and development impacts at the sector, country, regional, and global levels were not being fully captured. Some speakers remarked on the perceived trade-offs between additionality and development impact, although there was a sentiment in favor of a more in-depth discussion of this issue at the subsequent meeting on IFC's strategic directions. *IEG indicated that the evaluation methodology incorporates quantitative as well as qualitative assessments on environmental and social impact, economic sustainability, and private sector development impact e.g., demonstration effect.*

**Portfolio performance.** Comments were made on the varied performance of projects across regions and sectors, particularly the weak performance in Africa. In this regard, one member asked why smaller projects performed badly in comparison to larger projects, and the reasons for poor performance of direct investment and technical assistance to SMEs in Africa. *Management elaborated on the lessons learned in trying to manage small projects in Africa from Washington. In this regard, it said that some changes have been introduced such as using more intermediaries, and increased staffing in Africa through decentralization.*

Concerning the lower evaluated success rates for equity compared to loans, despite the fact that equity has a higher overall contribution to IFC's profitability, one member found it reasonable that higher return was linked to risk-adjusted return; *Management added that the profitability of IFC's equity investment should be looked at on a portfolio basis whereby successful projects drive overall outcome.* Others asked about IFC's criteria, other than customer's demand, for offering equity and loan.

**Country approach.** Some members stressed the importance of strengthening IFC's country approach taking into account the different needs for private sector development in frontier and nonfrontier countries and markets. In this regard,

few members felt that more could be done to strengthen and institutionalize the CAS. One speaker agreed with IEG's calls for IFC to define roles and priorities in MICs, and whether it should focus on key priority areas affecting the poorest, e.g. infrastructure, and frontier markets. Another proposed a model for looking at a country-level development impact analysis, which may facilitate the analysis of a project and its implications in a particular market. *Management informed that IFC is moving towards a more country-focused strategy under the current decentralization efforts, and when appropriate to programmatic approaches.*

**World Bank Group (WBG) synergies.** A few members encouraged improving the interaction between the Bank and IFC, including division of labor and consistency of country approaches. One member suggested addressing alignment of incentives and remuneration.

**Specific areas for engagement.** IFC's focus on rural projects particularly agribusiness and rural microfinance was encouraged. There was also a proposal to focus on climate change and energy efficiency. *Management replied that following IEG's recommendation to place an emphasis on rural development, agribusiness was selected as one of IFC's five priorities, particularly in frontier areas*

**Decentralization.** There were comments and questions on the cost-effectiveness of decentralization, and the impact on human resources including maintaining adequate staffing, diversity, and incentives to share knowledge while increasing efficiency. Relatedly, one member was concerned about tensions raised during managerial and organizational changes. A speaker cautioned about the use of incentives focused on volume. Others sought further elaboration on the delegation of operational authority to the field, and the quality of supervision of projects. *Management responded that its Industry Departments are working on enhancing knowledge sharing in a decentralized organizational structure, and across the WBG. While noting the*

*possibility of higher operational and oversight costs, Management stressed the benefits of decentralization such as closer knowledge of local markets including risks, and empowerment of staff through more delegation. Management informed that it was piloting successfully an incentives system where Bank staff are credited in their annual performance assessment for sub-national assets added to IFC book. Management emphasized the importance of using a system that will promote innovation and creativity rather than one focused on a checklist.*

**Disclosure of IEG report.** Through the full disclosure of the report, IEG expected better accountability. A few speakers welcomed the public disclosure of the report, and the impact on accountability and transparency, which could benefit other multilaterals and private investors, and promote monitoring and evaluation.

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*Makoto Hosomi, Acting Chairperson*