

About IEG-IFC

IFC's Independent Evaluation Group (IEG-IFC) independently evaluates IFC's investment and Advisory Services operations and reports its findings to IFC's management and Board of Directors. IEG-IFC is a resource for helping staff understand what IFC has learned and how IFC can do better business in the future.

About Findings

IEG-IFC *Findings* helps inform IFC and Bank Group managers and staff about new evaluation findings and recommendations. The views expressed here are those of IEG-IFC and should not be attributed to IFC or its affiliated organizations. The findings here do not support any general inferences beyond the scope of the evaluation, including any inferences about IFC's past, current or prospective overall performance.

Online access

<http://www.ifc.org/IEG>



2007 Independent Evaluation of IFC's Development Results

Lessons and Implications from 10 Years of Experience

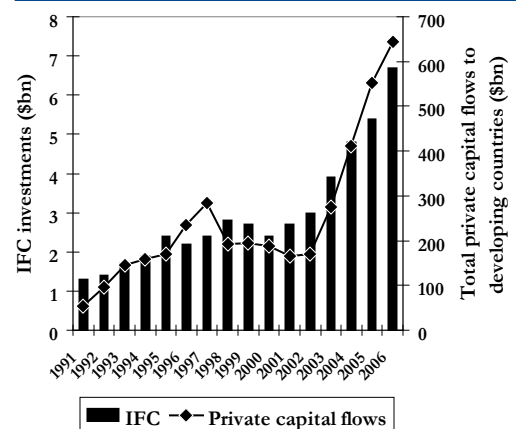
IFC's Independent Evaluation Group (IEG) took the opportunity of its tenth annual review of IFC's development results to look back at the performance of IFC's private sector operations across the last decade and to find out: (i) whether IFC-supported projects have achieved sound development results; (ii) what has been learned about private sector development through ten years of evaluation; and (iii) what are the strategic implications for IFC in improving its development performance in the years ahead.

The main findings of this review are:

- Since 1991, IFC has invested around \$50 billion in developing countries, achieving high development ratings in 59 percent of cases (or 65 percent by commitment volume).
- IFC profitability and development impact have tended to go together; IFC has not actively supported projects where there was a trade-off between the two.
- Project performance is closely linked to changes in a country's business climate, to management of risks, and to IFC's work quality.
- While evaluation findings broadly support IFC's strategic directions, they also point to the crucial need for more tailored, country-specific strategies with greater IFC-World Bank cooperation.

Since 1991, IFC has increased its financial activities approximately six-fold, investing some \$50 billion in developing countries through its loan and equity operations (Figure 1). Together with the funds provided by co-financiers, IFC-supported projects accounted for about four percent of all private capital flows to developing countries, and for some 30 percent of International Financial Institutions' private investments. Moreover, IFC has mobilized funding for operations in high-risk and low-income countries in pursuit of its "frontier" strategy. IFC investments are more than twice as concentrated as Foreign Direct Investment (FDI) in "frontier" countries.

Figure 1: IFC Investments and Private Capital Flows Since 1991



Source: IFC and World Bank databases

2007 INDEPENDENT EVALUATION OF IFC'S DEVELOPMENT RESULTS

Table 1: IFC's Development Results 1996-2006

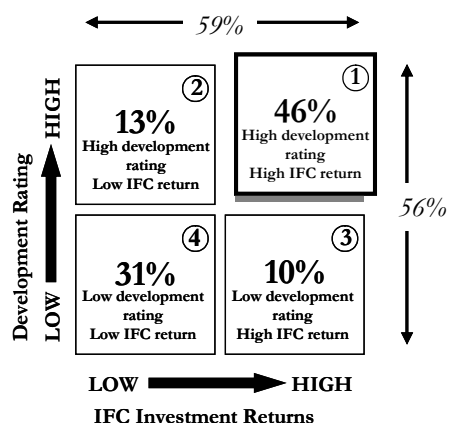
Development Indicator:	Success Rate	
	# of projects	amount committed
Synthesis Development Rating	59%	65%
Project Business Success	46%	50%
Economic Sustainability	62%	65%
Environmental & Social Effects	67%	72%
Private Sector Development Impact	72%	76%

Source: Independent Evaluation Group - IFC

Fifty-nine percent of IFC projects evaluated in 1996-2006 achieved high development ratings.

IFC staff have self-evaluated 627 investment operations; all of these have been independently verified by IEG. Projects were rated across indicators measuring their financial, economic, environmental and social performance, as well as their contribution to private sector development generally (Table 1). Considered together with their investment returns to IFC, 77 percent of projects had high-high or low-low ratings (Figure 2). For the most part, therefore, IFC has not supported projects where there was a trade-off between development results and investment returns.

Figure 2: IFC's Development and Investment Ratings



Source: Independent Evaluation Group - IFC

IEG has identified five factors that significantly influence a project's development results:

i) changes in the quality of a country's business climate following project approval; ii) the type of industry sector in which an investment is being

made; iii) the quality of the sponsor; iv) the level of product market, client company and project type risks; and v) IFC's project execution and supervision quality, which has consistently proven to be the most important factor.

Evaluation findings from the past decade broadly support IFC's core directions and priorities. Operations in strategic "frontier" countries and sectors have generally yielded above average results. IFC has also improved its balancing of project risks at approval and project supervision quality. There are, nonetheless, some major challenges for IFC in the coming years.

IFC needs to develop a sharper country focus, especially in Middle Income Countries (MICs).

While private capital flows to developing countries are at record highs, access to long-term local currency finance remains limited. Infrastructure shortages, environmental sustainability and rural poverty are other key challenges facing many MICs. IFC will need to do a better job of providing a unique role and contribution in its MIC projects than it did during the buoyant mid-1990s when IFC's role and contribution was rated low in almost a quarter of cases.

Cooperation between IFC and the World Bank has been less than envisaged in Country Assistance Strategies (CAS), and new incentives and mechanisms to complement the CAS are desirable.

A stronger country focus would complement IFC's sector and regional strategies, in part by helping identify opportunities for enhanced cooperation with the World Bank in areas of synergy such as business climate improvement, deepening of financial sector capacity, infrastructure development, and environmental and social impact.

IFC will need to manage the possible friction between rapid growth, organizational change, and project execution quality

as it seeks greater development impact through scaling up of investment and Advisory Services operations, and stronger local representation through further decentralization.

Financial markets can quickly withdraw financing for companies and countries in response to adverse economic or political events.

Improving risk management systems and developing new risk mitigating products to soften the impact for clients would, therefore, strengthen IFC's response to these shocks and enhance its counter-cyclical role.

Resources

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