



Recommendations

Meeting Stakeholder and Client Needs

Develop a Deeper, More Differentiated Country Approach

Background: IFC has achieved high development success rates through the pursuit of its frontier strategy since 1998, catalyzing investments in high-risk and low-income countries, as well as through investments in strategic sectors. However, IFC does not have a defined strategy in nonfrontier MICs, where most poor people live and where IFC has most of its operations. These countries face a spectrum of private sector development challenges, including a lack of capacity in domestic financial markets and poor infrastructure to support production and trade (see figure 3.1). IFC can play a valuable role in many MICs, even though IFC's additionality in these countries has not always been clear.

While IFC builds up its in-country capacity as part of the decentralization process, the institution has an opportunity to define clearly, at the country level, how it will bring additionality to both the frontier and nonfrontier countries in which it operates.

Recommendation: As IFC decentralizes, it has the opportunity to adopt more tailored country strategies to complement its strong sector and regional approach. This strategy might include, in consultation with the Bank and country govern-

ments, the development and pursuit of a set of country-specific private sector development indicators (such as for the level of private, gross, fixed capital formation; banking sector capacity; and private provision of infrastructure).

Place an Emphasis on Rural Development

Background: Economic growth and its resulting market distribution of income matters in reducing the numbers of poor people. IFC may want to acknowledge these elements in its strategic approach, in line with its mission statement. Poverty continues to show a strong rural origin. IFC has not, however, placed much emphasis on rural development in the past. In this regard, evaluation supports a focus on the agribusiness sector, which has had beneficial impacts on farmers and producers through linkage programs, and all instruments to expand access to finance in rural areas. (See box 3.1)

Recommendation: In its country strategies, IFC may consider flagging opportunities to work on the nexus of rural poverty and sustainable natural resources, on which poor people depend, and to identify and develop high-impact agribusiness and rural microfinance projects with widespread demonstration effects, while simultaneously providing leadership in promoting socially and environmentally sustainable practices.

Developing More Seamless World Bank Group Processes

Pursue New Incentives and Mechanisms to Enhance Cooperation with the World Bank in Areas of Synergy

Background: Cooperation with the World Bank in areas of synergy, such as in developing financial markets and infrastructure, has been more modest than anticipated in CASs. While cooperation has been strong in a few countries, it has fallen below expectations in many others. CASs have not proven to be a good basis for enhanced cooperation, and few staff have felt motivated to cooperate across institutional boundaries (see figures 3.2 and 3.3, and table 3.2). Moreover, because of the lack of upfront identification and tracking of investment operations involving IFC–World Bank cooperation, the ultimate development impacts of cooperation are also unclear.

Recommendation: To enhance cooperation with the World Bank in areas of synergy, IFC could (i) consider new incentives and mechanisms to complement the CAS process (with the Bank); and (ii) identify investments at approval that were facilitated by Bank policy or regulatory assistance, and track them throughout the project cycle (through DOTS or other means) in order to judge their success.

Addressing Learning and Growth Needs

Manage the Trade-offs Inherent in the Decentralization Process to Achieve the Highest Possible Work Quality

Background: IFC's strategy predicts greater development impact through higher investment volumes and stronger decentralization. IFC will need to prevent any trade-offs among rapid growth, organizational change, and project execution quality. During a previous period of significant organizational change, 1998–2001, IFC's evaluated supervision quality—a key driver of development success quality and currently at an all-time high—fell sharply (see figure 2.4). The institution has achieved improved quality with decentralization in South Asia (lower market and sponsor risk, higher supervision rates), but with more modest

volume growth than in other regions. In addition, IFC may be able to learn from the experiences of the Bank in its efforts to share knowledge across regions and countries

Recommendation: IFC will need to monitor the decentralization process closely to ensure that its work quality remains robust, and support this with a rigorous training program for new investment staff.

Financial and Measurement Issues

Ensure Sound Risk-Management Systems and Develop Risk-Mitigation Products

Background: Experience highlights how quickly financial support for companies can be withdrawn, precipitated by economic or political events. IFC has proved itself a valuable countercyclical investor. One prime example is its support for its large industrial clients in Turkey through periods of market turbulence, and their emergence as major engines of economic growth. Despite the current exuberance in the developing world, IFC should acknowledge in its strategy the threat of a cessation or decline in capital flows to the developing world, its likely impact on clients, and the mitigating actions that would be needed. Planning now to improve risk-management systems, and developing new risk-mitigating products to soften the impact for clients, would strengthen IFC's response to an economic shock and enhance its countercyclical role. (See figure 1.1 and box 3.3.)

Recommendation: IFC will need to make continued efforts to improve its risk-management systems and to prepare for the next correction in the international markets, including perhaps the extended use and development of new risk-mitigation products.

Strengthen the Capacity for Evaluation and Its Application

Background: In recent years, IFC's strategic directions have been increasingly informed by evaluation findings. Substantial progress has occurred in the development of IFC's monitoring and self-evaluation systems, which in the last two years have advanced to where IFC is now starting to

measure its development results *across* its portfolio of investment and advisory operations, as well as carry out impact evaluations of its advisory services operations (see box 1.3). IEG will have an important role to play in validating IFC's reported performance under these systems and, building on this progress, in helping IFC advance the measurement of the cumulative effects of its operations and their wider environmental and social impacts. Improved metrics should help IFC structure and manage its operations to further

optimize development effectiveness. Better metrics will allow for deeper performance evaluation and further learning from IFC operations.

Recommendation: As it deepens its self-evaluation and monitoring systems, IFC could, with IEG's assistance, advance its metrics to better understand (and derive lessons about) the wider sector and the country-level impacts of its operations.

