



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

On July 25, 2007, the Committee on Development Effectiveness (CODE) considered the *IFC Advisory Services in Eastern Europe and Central Asia: An independent Evaluation of the Private Enterprise Partnership Program* report and the *Draft IFC Management Response*.

Background

PEP-ECA was established in 2000 to consolidate its Advisory Services program in the region and provide a more permanent, specialized management structure. Its objectives are to improve the investment climates, promote private investments, and facilitate more rapid growth and development of small and medium enterprises (SMEs). Other regional Advisory Services facilities have been emulating PEP-ECA features.

Main Findings and Recommendations

IEG found that PEP-ECA was generally successful in achieving its objectives, although the impact was less clear for SMEs. It also noted that almost two-thirds of projects achieved successful development effectiveness results. IEG attributed the positive results to PEP-ECA's management structure, product line specialization, focus on development of replicable projects, dedicated project

teams of qualified professionals, including local staff and international expertise, strong project implementation, and long-term project life. In addition, IEG identified some areas for improvement, including the funding approach, pricing of Advisory Services, as well as the need to assess country and market conditions better and tailor projects to local conditions before project launch. The report also provided three sets of recommendations: (a) strengthen the organizational structure of the PEP-ECA model, focusing on funding approach, human resources, treatment of ineffective projects, and monitoring and evaluation, (b) strategically leverage advisory and investment tools in a complementary fashion to tackle long-term country and sector development needs, and (c) formalize more detailed pricing and subsidy guidelines for Advisory Services to assess the full cost of intervention and provide subsidies on a selective and justified basis.

Draft IFC Management Response

IFC agreed to the thrust of the IEG findings and recommendations and noted that it is already initiating responses to the issues raised in the evaluation report. In this regard, IFC provided information on actions being taken. IFC noted that there are many lessons that could be drawn from the IEG report and informed CODE that IEG had agreed to organize workshops with IFC on the PEP-ECA evaluation for staff working for PEP-ECA and IFC's Central and Eastern Europe, SME, and other departments.

Overall Conclusions and Next Steps

CODE commended IEG for an informative and well written report. It also appreciated Management's acceptance of IEG findings and recommendations and its prompt actions to implement them. Members welcomed the achievement of successful development effectiveness in two-thirds of projects supported by PEP-ECA. They also noted that the report provides useful information and lessons for improving the development effectiveness of IFC Advisory Services in general. Members encouraged the use of the findings to strengthen PEP-ECA and other regional PEPs. The main topics discussed by CODE included (a) synergy between the Advisory Services and investments, (b) pricing policy, (c) collaboration among World Bank Group institutions and within IFC, (d) product line specialization, and (e) results measurement and monitoring evaluation. CODE looked forward to a technical briefing by IFC on its pricing policy for Advisory Services.

The following main issues were raised during the meeting:

Complement Advisory Services and investments. Several speakers stressed the importance of leveraging Advisory Services and investments in a complementary fashion to address a country's long-term development needs. In this connection, a speaker observed the relatively high level of Advisory Services and the lower amount of investments in the ECA region. Another speaker asked IFC about its initiatives to strengthen the synergy between Advisory Services and investments at the country level, and

IEG's views on IFC's ongoing efforts. A member noted the need for appropriate staff incentives to support complementarity between Advisory Services and investments. *Management acknowledged the importance of enhancing the synergy between Advisory Services and investment and noted that the mix of support depended on country and climate-specific circumstances; in some countries, IFC may deliver only advisory support and, in others, only investment, but in most countries, IFC would deliver some combination of Advisory Services and investment. Management expected the shift of staff to the field would strengthen the integration of Advisory Services and investments at the country level.* IEG welcomed the steps taken by Management to enhance the complementarity between Advisory Services and investments, which is a work in progress.

Product line specialization. Noting the strengths of product line specialization, one member wondered whether IFC had given thought to developing "flagship" Advisory Services, such as the International Monetary Fund's financial advisory programs. Others echoed IEG's findings on the need to adapt product lines to client needs and specific country circumstances, especially at the product preparation stage. A member asked about the gaps in the product preparation stage. IEG elaborated on its findings on the impact of the PEP-ECA funding approach in limiting the adaptation of product lines to the country context, as well as weaknesses at the product preparation stage. Concerning "flagships," *Management responded that a recent review of Advisory Services led to classification of advisory products into three categories: developed (or core), under-developed, and other. Following this exercise, more resources are now focused on the first two categories.* A member was interested in the improvements to the product lines, which had relatively lower success rates, namely SME development and linkages. IEG cautioned about drawing definitive conclusions about direct IFC support to SME development because there were only four, very different PEP-ECA projects during the period reviewed. It also noted that indirect efforts (e.g., through fi-

nancial intermediaries) were more promising than direct efforts, but noted the need to capture impact on SMEs better. With regard to linkages, IEG noted that the evaluated projects belong to the early generation of such projects, which were executed before creation of the linkages business line under the oversight of IFC's SME Department. IEG also indicated that the challenges faced in the linkages projects are specific to industries and clients. In response to a specific question about the inclusion of energy efficiency in Advisory Services, Management elaborated on the increasing work in this area that is supported by PEP-ECA.

Pricing policy. Several members sought to understand better IFC's pricing policy and guidelines initiated in January 2007, including the approach to separate public and private benefits and charge recipients of private benefits. They requested an IFC technical briefing on the topic. A member also sought more information on IFC's experience in implementing the pricing policy and the demand by the private sector projects. *Management briefly explained the role of staff judgment in determining public and private benefits and that pricing applied only to private benefits. It noted that there is no pre-set percentage for pricing, which is based on specific project and client circumstance. Management also said that there is an ongoing preliminary review of the implementation of the new pricing guidelines and remarked that firms have so far, as a general rule, been willing to pay the fees. Management added that the client contribution is fairly limited and that costs of Advisory Services are funded mostly through retained earnings and donor contributions. Management agreed to provide CODE with more information on its pricing policy at a technical briefing.*

Internal coordination. Some speakers raised concerns about the compartmentalization of staff knowledge along product lines, operational departments, and regions. They highlighted the importance of integrating knowledge and experience within IFC and strengthening the synergy among the different units of the organization to serve clients better. *Management*

described the ongoing efforts to ensure internal coordination at the management and staff levels, which includes managers' meetings every six months to review the work and share experiences and yearly meetings of regional and field-based staff working in specific business lines.

Strengthening collaboration. Speakers emphasized the need to improve World Bank Group collaboration, drawing on the comparative advantages of each institution. In particular they called for a formal framework for coordination with the Bank for private sector development, in light of IFC's scaling up of activities in frontier and International Development Association countries. *Management clarified that specific procedures have been introduced to strengthen the World Bank Group collaboration, systematically invite counterparts to strategy meetings and peer reviews, as well as share portfolio information on IFC Advisory Services.* A few speakers remarked on the unique comparative advantage of IFC Advisory Services stemming from IFC's experience and understanding of private sector markets. They encouraged IFC to draw on its expertise in Advisory Services beyond traditional areas, such as new financial market instruments (e.g., hedging instruments, and asset management), and to help private sector clients in developing countries meet the demands of the global market. *Management responded that it will further consider how to expand its technical work in the financial area, including the possibility of drawing on the expertise of IFC's Treasury.*

Monitoring and evaluation of Advisory Services. A member asked for more information on steps being taken to monitor and evaluate better the development effectiveness of Advisory Services. *Management assured members of its efforts to strengthen results measurements, which includes establishing standards indicators for output, outcome, and impact; taking part in a number of external impact evaluations; and working with IEG to improve the quality of project completion reports.*

Jiayi Zou, Chairperson, CODE