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CHAPTER ONE:

Technical Assistance as a Mainstream Service – in Partnership with Donors

Donor Funded Operations accounted for about $90 million in expenditures in FY04.

About one-third of IFC staff are engaged full time in DFO work. Many of them are based in the field.

Technical Assistance (TA) at IFC has grown in the range of activities, sectors, and regions covered in the past decade, and is now an integral tool in delivering IFC's mission of private sector development in our client countries.

In FY2000 five Donor Funded Operations (DFO) were managed by IFC, with a total approved budget of $126 million. Today there are 24 DFOs with about $100 million currently committed from IFC and about $250 million from our donors. These committed funds will be utilized in the coming three to five years, depending on the funding cycle of each DFO.

The growth of TA programs at IFC demonstrates the strong demand for TA for private sector development (PSD) in our client countries as well as the interest of the donors in responding to such demands. Many donors have explicit PSD strategies and have relied on IFC's capacity and capability to deliver intended results through various TA programs.

We are therefore making a conscious effort to leverage our TA efforts with our investments to deliver IFC's broader development mission. Some TA projects are directly linked to IFC investment projects and are adding significant development value to our investment. These investment projects often become models for other companies to follow. Other TA programs, such as SME facilities and projects, are not directly linked to IFC investment projects and address broader issues, such as improving investment climate in certain sectors, regions, and countries, while using the knowledge and experience IFC has acquired through its investment operations.

Clients and beneficiaries of TA are also diversified. Many of the direct beneficiaries are private companies that have shown strong commitment in improving various facets of their business, for example, in corporate governance, environmental management, or accounting. IFC also provides advisory services through TA to government entities, financial institutions, SMEs, and business development service providers.

In FY04, TA programs focused on the following areas:

Small and Medium Enterprises

SMEs are critical to development, and IFC continues to stress the importance of developing viable SMEs in many of our client countries. During FY04, one new facility to promote SMEs was launched (Private Enterprise Partnership for the Middle East), and another was approved (Iraq Small Business Financing Facility) in the Middle East and North Africa, thus increasing the total number of SME facilities to 12. During FY04, regional directors took direct responsibility for all of these facilities, thus making them more integrated with IFC's regional strategies. The facilities are gradually shifting their focus toward wholesale assistance rather than providing assistance to individual SMEs on a retail level. Donors continued to show strong support for SME facilities, and about 75 percent of new commitments in FY04 from the donors went to these facilities.

In collaboration with the SME facilities and industry departments, IFC's SME Department is increasingly developing linkage programs. Currently programs in 14 countries are linked to over $1 billion in IFC investments. Two prominent programs underway are related to the Chad-Cameroon pipeline and the Baku-Tbilisi-Ceyhan (BTC) pipeline projects. Both of these programs reflect IFC's strategy of working closely with clients and partners to provide developmental support to growing SMEs through linkages to major investment projects. The support is directed at expanding local supply and distribution chains to create more opportunities for smaller businesses and to assist in sustainable community development efforts. The program's clients benefit from the provision of targeted technical assistance, improved access to finance, and the creation of local business development service providers.

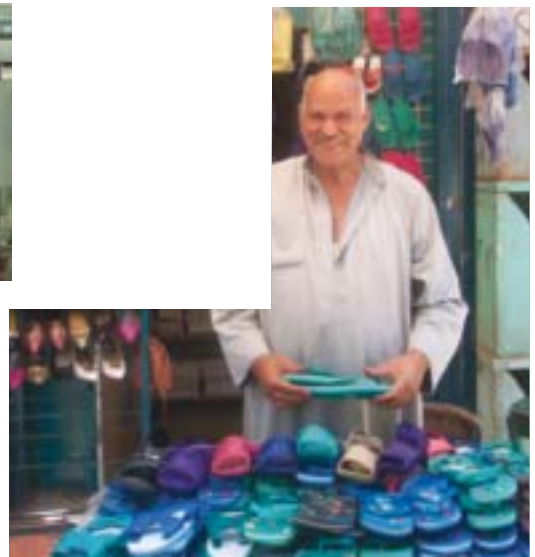
The SME Department is now much more focused on capturing and disseminating best practice in SME development and providing input to regional SME strategies. It also provides expertise to the facilities and other activities in the World Bank Group, such as the IDA/IFC Africa program.

Financial Markets

IFC continues its efforts to improve the quality, scope, and accessibility of financial services in our client countries by investing in and providing TA to banks and non-bank institutions and related regulatory authorities. The TA tools include undertaking studies to identify new financial services such as leasing, housing finance, insurance, and contractual savings; creating enabling environments to support the financial institutions, including the development of securities markets and credit bureaus; and building strong, sustainable, and diversified financial institutions and markets.

IFC is currently engaged in 88 TA projects in Financial Markets Advisory Services (FMAS) in 60 countries, worth almost $38 million in aggregate. Over 75 percent of the FMAS TA portfolio involves strengthening micro- and SME finance. Helping countries diversify into non-bank financial services accounts for 35 percent of the portfolio, primarily for firms to diversify into SME-related leasing. Over 70 percent of the FMAS portfolio is helping to strengthen individual institutions, largely where IFC has investments.

Substantial efforts are made in institutional capacity building in such areas as corporate governance, applying international standards in various areas including accounting, and conventional training in technical areas such as credit analysis.



Sustainability

For IFC, sustainability is an essential element of business success and a means to enhance development impact. IFC is now the global sustainability leader. The Equator Principles are a voluntary set of guidelines based on the policies and guidelines of the World Bank and IFC for managing social and environmental issues related to the financing of development projects. Adopted initially by 10 leading banks in June 2003, the concept now extends to 26 financial institutions around the world. These financial institutions will apply the Principles globally for project finance in all industry sectors, including mining, oil and gas, and forestry.

In July 2002, IFC created three new donor-funded facilities around the theme of environmentally and socially sustainable business. Together, these facilities are called the Sustainable Business Assistance Program (SBAP) and comprise the Corporate Citizenship Facility, the Sustainable Financial Markets Facility, and the Environmental Opportunities Facility. They help to expand the range of activities associated with IFC's investments, and accelerate wider market adoption of new technologies, services, and business models. (See details on SBAP in Chapter 3.)

In addition, IFC manages a part of the Global Environment Facility, carries out updates of the Environmental, Health, and Safety Guidelines, and engages in energy efficiency initiatives, many of which are funded by the donors.

One of IFC's strengths in delivering...results comes from our experience in investing in private sector projects in our client countries.

Donor Breakfast and Roundtable Meetings

IFC ANNUAL DONOR BREAKFAST MEETING: Dubai, September 21, 2003

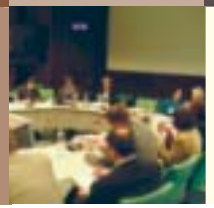
The IFC Donor Breakfast Meeting was held in Dubai, United Arab Emirates, in conjunction with the World Bank Group–IMF Annual Meetings on September 21, 2003. IFC uses this annual opportunity to share with donors the broad strategic directions of its donor-funded operations for the coming year and to review the performance of past and ongoing initiatives.

The meeting was chaired by Mr. Peter Woicke, Executive Vice President of IFC and Managing Director of the World Bank. Mr. Woicke welcomed two new donors, South Africa and the Federal Government of Germany, and thanked Finland's Ministry of Trade and Industry for setting up a new trust fund for China and Russia. He thanked donors for the more than $65 million in new commitments for technical assistance they provided last year, targeted primarily toward capacity building in the private sector, and for the support of SMEs. He pointed out that the bulk of IFC's technical assistance was in higher-risk "frontier" countries, with more than 10 percent in countries with a high incidence of poverty. These frontier countries remain underserved as investors become more discerning, and this has meant more demand for IFC's TA services.

Mr. Woicke pointed out that IFC has responded through new approaches, strengthened partnerships, and enhanced capacity. For instance, a donor-funded facility for infrastructure projects in the Balkans, the BIDFacility, was established during the year and is expected to make use of public-private partnerships. In the SME sector, IFC's project development facilities now report directly to regional directors to ensure that their operations are more closely integrated with IFC's core private sector development strategy. Also, work on two new facilities in Indonesia and Latin America began operations in FY04. The financial markets TA program was reorganized and expanded to include housing finance and leasing. In the area of environmental and social sustainability, three new facilities for corporate citizenship, environmental innovation, and capacity building in financial institutions began operations. IFC was able to leverage its expertise in sustainability to facilitate adoption of the Equator Principles, an initiative in which the world's leading banks have adopted IFC's environmental and social standards as mandatory for their project finance lending around the world. IFC is proud to be the center of the Equator process and could not have done this without donors' support.

Donors expressed general satisfaction with IFC's TA activities and its strategic directions, including its sustainability focus. They called for IFC to play a greater role in promoting private investment in the poorest countries, particularly in Africa. The donors welcomed the trend toward linkages and community development around large IFC projects, and they encouraged IFC to link its TA activities to its investment operations. They sought earlier and greater donor consultation in project design, and urged greater collaboration between IFC and the regional development banks.

While there is optimism about the momentum of IFC's TA work, Mr. Woicke concluded, a lot more remains to be done. Iraq and Afghanistan will present a special development challenge. Also, there is still room for progress in measuring development impact and ensuring that IFC disseminates its lessons of experience with clients and others in the development community. IFC has allocated about $34 million of its own funds for technical assistance and advisory work for the current fiscal year— the highest levels ever. Underlying all these efforts is a deep appreciation for donors' support and collaboration, and a willingness to continue experimenting with new models and pilots.



IFC DONOR ROUNDTABLE: Paris, May 3-4, 2004

The theme for the Donor Roundtable held in Paris, France on May 3 and May 4, 2004, was Beyond Financing: Adding Value through Partnerships. A broad cross-section of donor representatives attended, along with an IFC delegation led by Mrs. Farida Khambata, Vice President Portfolio and Risk Management, who chaired the Roundtable. The primary objective of the Roundtable was to update donors on the status of IFC's technical assistance programs and of the Corporation's future strategic directions so as to enable both sides to make informed decisions about partnering. This year, the Roundtable was organized to present IFC's TA activities along regional lines, while also summarizing cross-cutting themes such as sustainability, financial market development, and SME development. A few donors shared their experiences about their own bilateral programs and their potential for strengthening partnerships with IFC. A half-day was also allotted to discussing the important theme of TA evaluation within IFC.

Donors welcomed the proposed changes following the Donor Funded Operations Strategic Initiative (DFO-SI), which they saw as an indication of IFC's ability to adapt to a changing environment. However, they cautioned that IFC's TA activities should remain demand-driven, and that the proposed Funding Mechanism for Technical Assistance and Advisory Services should not be seen as an indirect way of phasing out nationality-tied donor funds. They also were concerned that IFC's expanding TA activities could distort markets by competing with local providers of finance who cannot offer TA services. On the restructuring of the SME Department, many donors applauded the devolution of responsibility to the regional departments. However, they warned of the necessity to ensure an optimal balance between regional and central knowledge in the SME sector. Some donors suggested a special session in next year's Roundtable dedicated to the lessons learned from IFCs experience with SMEs. They encouraged IFC to share its knowledge on SMEs with other organizations such as the International Labor Organization.

While welcoming the Africa Strategy and the IDA/IFC Africa Initiative, donors felt that there should be greater collaboration with other multilateral institutions, such as the United Nations Development Programme and the Africa Development Bank, with IFC playing a more proactive role in leading such collaboration. In Asia where, in many countries, finance is not in short supply, IFC should focus on countries with a more challenging political environment and help support regional integration efforts. With regard to the IFC's TA activities in the area of sustainability, donors encouraged IFC to pay special attention to monitoring and evaluation. On IFC's microfinance activities, donors recommended that IFC maintain an appropriate mix of TA and credit lines, with up-front subsidies preferred to ongoing subsidies. Many donors expressed a willingness to collaborate with IFC and the World Bank in the area of infrastructure. Donors welcomed the concept of a corporate project completion report for IFC's TA evaluation activities, but recognized the difficulty of measuring development impact and poverty reduction. They emphasized the importance of independent evaluations and suggested that good case studies be disseminated broadly. They also encouraged flexibility, ex-ante evaluations, and cross-cutting themes.