



# Message from IFC's Executive Vice President



It gives me great pleasure to present to you this comprehensive report, which describes all that we do in the area of technical assistance (TA) and advisory services with the funding that you have so generously provided.

This year has marked a turning point in our growing network of partnerships with donor nations.

Not only were our donors more supportive and entrepreneurial in collaborating with IFC than ever before, increasing our overall technical assistance and advisory activities to a level of over \$100 million. IFC responded in kind, by expanding our capacity, formalizing a long-term plan to ensure greater stability in our own funding for these initiatives, and integrating donor-funded operations more tightly into our core business.

Altogether, this creates some very exciting prospects for our shared mission of reducing poverty through vibrant private sector growth. IFC's strategy, structure, and staff are aligned to ensure that we deliver for donors both consistent, tangible results and the flexibility to respond to new opportunities.

We are constantly reminded in our work on private sector development that our clients require a broad array of responses. Governments in both frontier and middle income countries have increasingly recognized the importance of supporting the growth of the private sector, creating a greater call for assistance from development institutions, and placing increasingly complex demands upon them.

In response to these demands, the Corporation is working with **five strategic priorities**:

- Strengthening our focus on frontier markets with emphasis on the SME sector
- Building long-term partnerships with emerging global players in developing countries

- Using our focus on environmental and social sustainability as a key way to differentiate ourselves from others in this field
- Addressing constraints to private sector investment in infrastructure, health, and education
- Continuing to focus on the development of domestic financial markets through institution-building and the use of innovative financial products.

It is becoming increasingly clear that to meet the challenges of these strategic priorities, the Corporation will need to scale up its provision of technical assistance and advisory services.

In **frontier markets**, IFC's TA will continue to focus on both private industry and governments, improving the framework for investment and increasing the capacity of businesses (mostly SMEs) to thrive and grow. This includes the work of all our Project Development Facilities and Private Enterprise Partnership facilities so generously supported by you. This also includes closer collaboration with the World Bank private sector development groups and enhanced partnerships with IDA.

An increasing number of IFC's clients, other financial institutions, and investors recognize IFC's leadership in the **sustainability** area and the value that its environmental and social standards and expertise provide. As we reported to you last year, in June 2003, 10 major international banks from seven countries adopted the Equator Principles, based on IFC's environmental and social safeguards and guidelines, as standards for their project finance activities. Since then, 16 more banks have joined, making the Equator Principles the new market standard, applicable to over 80 percent of the project finance market.

IFC invests on a commercial basis, and this remains at the core of the Corporation's approach. However, IFC has the ability to broaden this core competency by providing other value-added services to its clients. In a context where clients have an increased range of choices among international financial institutions, including some positioned as low interest rate lenders, IFC's comparative advantage is to provide these value added services along with funding to its clients, rather than just provide capital. Our ability to do this on a consistent basis is highly dependent on partnering with donors, as for example in our work in

- corporate governance, where we help clients implement best practice
- linkages, which add value to clients by lowering costs through increased local procurement of goods and services, enhancing community development programs, and improving relations with various local stakeholders
- HIV/AIDS, where our IFC Against AIDS program has worked with IFC clients to help first identify the risks and then provide guidance to establishing appropriate programs for the workforce and/or neighboring communities.

As the number of TA programs increases, there is a growing recognition in IFC and among our donors that **evaluation** of outcome is important. To strengthen the measurement of IFC's technical assistance and advisory services, a uniform project completion measurement system, applicable to all such activities in the Corporation, is being piloted. The system will address both the effectiveness of the advisory work from an output perspective and the expected development impact, and it will also include a corresponding system of evaluation. This will allow the effectiveness of the TA and advisory activities to become an important element in the assessment of the overall results of the Corporation.

IFC's reorganization a couple of years ago strengthened the role of the Regional Departments in the strategy process, with corporate investment activities being driven by regional strategies. In order to fully integrate and coordinate the added value of our services with investments, since January of this year the Regional Departments have taken on responsibility for all TA activities in their regions. They will put forward a separate **TA strategy**; this will be done for the first time in the fall of 2004. We made this change to emphasize even more the long-term importance of TA.

Last year I reported to you a long-term challenge for IFC. To do what is demanded of us in those areas where we have a comparative advantage, I said we would need a much more planned and stable source of TA funding. I am happy to report that we have now taken an important step in this direction.

One of the unique features of IFC's involvement in technical assistance and advisory services is that we make a significant cash contribution to the various TA activities from our own net income, and then use this funding to leverage additional resources from you, our donor partners. We believe that our financial involvement strengthens the ongoing working relationship with you and helps to ensure better alignment of interests. IFC's annual contributions to these activities have increased from \$5 million five years ago to \$34 million in FY04 and a projected \$43 million for FY05. IFC's expertise and track record in this work have been recognized by the donor community, which now provides more than \$100 million per year to these IFC-managed activities. We seek to build on this confidence you have shown in IFC, and work with you, our donor partners, to fund a good part of IFC's highly developmental capacity building and advisory activities.

As a way to strengthen our collaboration with you, IFC's Board has now approved the creation of a new Funding Mechanism for Technical Assistance and Advisory Services, wholly funded from our own resources. From now on, in every year that IFC's net income exceeds \$150 million, a portion of the net income will be designated for Technical Assistance and Advisory Services. The mechanism will thus provide a better, more stable way for IFC to meet its own commitments over a longer term. It can also give the Corporation some added flexibility: IFC can potentially make an upfront commitment for bigger programs and for project facilities, with the donors subsequently joining the funding exercise, depending on their own budget cycles. In addition, the mechanism will allow IFC to do important mission-related advisory work in regions where donor resources are scarce or unavailable and will allow us to cover gaps in external funding due to economic downturns and/or "donor fatigue."

We will continue to need the support provided by you, our donor partners, because there is so much to be done. Our intention in setting up the Funding Mechanism is to provide a more sustainable, efficient, and transparent way for IFC to support the many technical assistance and advisory activities being requested by our clients.

I thank you once again for your continued support and for another productive year of partnership; we look forward to continuing together in our joint mission of fighting poverty by fostering sustainable, private sector-led development.

PETER WOICKE  
IFC EXECUTIVE VICE PRESIDENT  
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