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Strengthening Partnerships with the Donor Community to Deliver Better Technical Assistance



Technical Assistance and Advisory Services – An Integral Part of IFC’s Business

TAAS programs help IFC deliver on its mandate to support sustainable private sector development. When coupled with investments, they improve development impact and distinguish IFC from other financiers.

Most of IFC’s member countries now acknowledge the importance of private sector development in promoting growth and reducing poverty. The increased attention given to the investment climate and the reception given to the *Doing Business* report in many developing countries over the past few years underscore this growing consensus. During recent replenishment discussions for the World Bank’s International Development Association (IDA), donors stressed that stronger growth requires a better climate for private investment in poor countries and urged a redoubling of efforts to support domestic private sector growth. But there is also recognition that the private sector cannot do everything on its own and that success in such areas as infrastructure and small and medium enterprises will entail the use of more effective public-private partnerships.

In FY05, IFC had active TAAS programs in more than 70 countries, with most being delivered in frontier countries. Today, about a third of the Corporation’s staff, or close to 700 people, are engaged in full-time delivery of TAAS operations.

Annually, IFC manages over \$108 million in TAAS program expenditures. Project development facilities and private enterprise partnership programs account for more than 50 percent of TAAS spending, the Technical Assistance Trust Fund program for about 17 percent, and the Foreign Investment Advisory Service and Sustainable Business Advisory programs for another 14 percent. The balance of the spending occurred in other global programs. (See box for a snapshot of IFC’s TAAS work, geographical distribution and beneficiary groups.)

In FY05, TAAS programs focused on the areas and activities described below.

Frontier Countries

Basic issues of investment climate, market size, and the lack of institutional capacity at both the private and public levels continue to challenge frontier countries. In addition, vast regional disparities continue to exist within some of the larger developing and transition countries, from China and India to Brazil and Russia.

In frontier countries, where access to long-term financing remains scarce, IFC plays an important role in providing needed financing to the private sector as well as in addressing countries' broader private sector development issues, such as the investment climate and sectoral constraints to private investment. For IFC, the challenge is to scale up support for SMEs; promote viable partnerships between governments and the private sector; and, in close cooperation with the donors and the World Bank, help build the capacity of both the private and public sectors to ensure long-term success.

Key developments include:

- The Africa Project Development Facility was restructured into a new model, the Private Enterprise Partnership for Africa. Its mandate will broaden the support for the three pillars of IFC's regional strategy in Africa; providing project development assistance, enhancing support to SMEs, providing project development, and improving the investment climate. IFC will use PEP-Africa to tackle broader issues of SME development and constraints to private sector development and to add value to its investments.

A SNAPSHOT OF IFC'S TECHNICAL ASSISTANCE AND ADVISORY SERVICES

Assistance to firms. Includes support to strengthen micro, small, and medium enterprises and to help establish supplier or distributor links between these businesses and larger companies.

Business enabling environment. Includes removing barriers to investment, improving government policies for SME sector, strengthening business service providers, studying specific sectors, advising on corporate governance, and conducting gender initiatives.

Environment and social development. Includes benefits related to biodiversity, energy efficiency, HIV/AIDS, renewable energy resources, workforce health and safety, community development, and indigenous people.

Financial Markets Development. Includes promotion of leasing, factoring, housing finance, insurance, banking, microfinance, and trade finance.

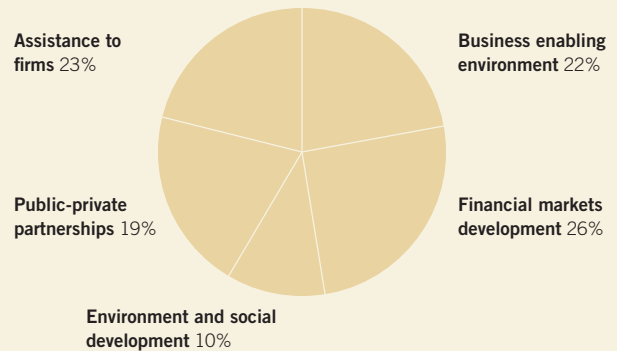
Public-private partnerships. Includes providing advisory assistance (primarily to governments) on privatization and restructuring of state-owned enterprises, and on private sector participation in infrastructure to expand access to public services (such as transportation, health services, and power).

Approved funding for TAAS projects active in FY05 totaled \$276 million.

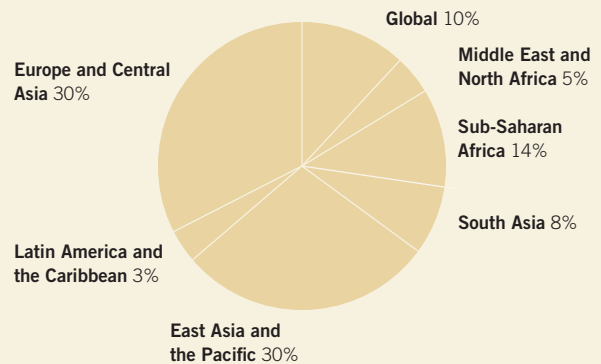
The data in these graphs were collected using new procedures implemented across IFC during FY05; they have not been audited.



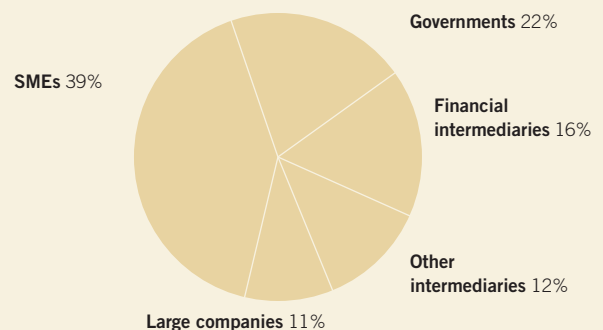
MAJOR AREAS OF TAAS WORK
(percentage of approved funds for active projects, FY05)



GEOGRAPHIC DISTRIBUTION OF OPERATIONS
(percentage of approved funds for active projects, FY05)



GROUPS THAT BENEFIT
(percentage of approved funds for active projects, FY05)



- The Private Enterprise Partnership for the Middle East and North Africa was launched to address some of the main constraints to greater private sector investment in the region, to support SME development, and to assist in the recovery of post-conflict countries.
- Joint IFC and World Bank teams have completed design and begun implementation of the IDA-IFC Micro, Small, and Medium Enterprises programs in Nigeria, Kenya, Uganda, Burkina Faso, and Mali.

Sustainability

IFC has advanced its sustainability agenda by improving policies and processes, bringing sustainability competencies to clients, and developing sustainability strategies in sectors where large environmental, social, and governance impacts are possible. Donors supported many of the initiatives in this agenda.

Examples include:

- Updating the Pollution Prevention and Abatement Handbook, which provides guidelines on pollutant control technologies. The handbook is used widely by companies, governments, financiers, and international financial institutions. Five donors are supporting this effort.
- Small and medium enterprise linkages programs connect SMEs to major IFC investments and bring additional economic benefits to surrounding communities. Programs often focus on value-chain development or income-generating opportunities for local entrepreneurs. To date, about \$20.4 million of technical assistance funding has been mobilized for 14 linkages programs in 10 countries.
- Sustainability competencies have been introduced to promote corporate governance, SME linkages, and AIDS programs.
- Sectoral strategies have been developed to support extractive industries, sustainable energy and industrial efficiency, and financial markets.

Financial Markets

In many IFC client countries, access to financial services is inadequate, especially for SMEs. Therefore, IFC continued to strengthen local capital markets and institutions by providing institution-building assistance to banks, credit bureaus, and securities markets. IFC also continued to help expand local access to innovative products and services in specific priority areas. Donors have funded many projects to assist in this effort.

IFC is also engaging with the financial sector on sustainable lending and investment issues. The Sustainable Financial Markets Facility

is a donor-funded program to provide training and best practice guidance to financial institutions on sustainable banking and finance in partnership with local and regional organizations.

Improved TAAS Management

IFC is engaged in a major effort to strengthen the systems underlying the design, delivery, and monitoring of its technical assistance programs. Several initiatives have been undertaken to ensure consistently high-quality delivery of assistance:

- *Focusing on key lines of business* – IFC is reviewing its experience with different technical assistance (TA) products to identify key lines of business that can be supported and replicated in other markets.
- *Strengthening staff capacity and improving flexibility* – IFC is undertaking several human resources initiatives for its TA staff, including developing a corporate cadre to retain key TA staff along with their extensive knowledge and experience, developing corporate competencies, and improving training.
- *Monitoring and evaluating projects* – IFC has recruited monitoring and evaluation staff in all facilities and has implemented a new project approval system for all TA projects—a system similar to the one used for investment projects. This system includes identification of expected outcomes and impact and the development of standard indicators for measuring development effectiveness.

Funding Mechanism for Technical Assistance and Advisory Services

In FY05, following a Board resolution in June 2004 to establish FMATAAS, IFC designated \$225 million from its FY04 retained earnings for TA expenditures through the new funding mechanism. After careful analysis of past profitability trends, and to ensure reasonable distribution of funds, IFC management decided to limit annual expenditure allocations under FMATAAS to about \$65 million for FY06 and beyond. For FY05, IFC allocated about \$68 million, of which about 75 percent has been designated for existing IFC facilities and other donor-funded operations and the balance to various projects for capacity building and other TA needs.

Future Outlook

In the future, IFC will pay additional attention to improving the synergy between its investment and TA activities and to combining concessional financing with commercial investments to tackle the challenges of infrastructure and SME development in frontier markets. Collaboration between IDA and IFC will become much more significant, especially with a view to catalyzing public-private partnerships.

IFC Donor Breakfast Meeting Washington, D.C. October 4, 2004

IFC held its annual Donor Breakfast Meeting in Washington, D.C., in conjunction with the World Bank Group/IMF annual meetings. Mr. Peter Woicke, Executive Vice President of IFC and Managing Director of the World Bank Group, chaired the meeting, and attendees included donor representatives and IFC management and staff. The primary objectives of the event were to showcase IFC's donor-supported technical assistance initiatives, to highlight recent developments in our technical assistance strategy, and to discuss ways to further develop our partnerships with donors.

Presentations underlined the important role of donor-funded technical assistance in launching the first commercial microfinance institution in Afghanistan and IFC's first public-private partnership project involving water distribution for agricultural use. IFC also explained recent trends in its delivery of technical assistance in Africa.

Mr. Woicke welcomed IFC's newest donor, the Wallonia Region of Belgium, and expressed his appreciation of donor support for the Corporation's technical assistance activities. He summarized the recent changes in IFC's technical assistance strategy:

- Technical assistance has been integrated with the investment work of the regional departments. As of January 2004, these departments have taken full responsibility for integrated technical assistance strategies and for all related activities in their regions. This approach is consistent with the larger role the regional departments are playing in business development. It also reflects the central contribution of technical assistance to IFC's traditional work.
- IFC's Board has approved a funding mechanism that enables IFC to designate a portion of its net income every year for technical assistance and advisory services, provided that net income is above \$150 million. This funding is meant to complement donor support by allowing IFC to make stable and dependable contributions to its technical assistance activities and to improve long-term collaboration with donors.
- IFC is expanding its work on investment climate issues critical to the development of micro and small enterprises in developing countries. Activities are being closely coordinated with the World Bank and benefit from the momentum created by the *Doing Business* report.
- IFC is providing leadership in establishing global benchmarks on environmental and social issues. Since June 2003, 32 financial institutions representing about 80 percent of the world's project finance market have adopted the Equator Principles, which are based on IFC and the World Bank's policies and guidelines.
- IFC is further promoting sustainability through value-added services and funding to its clients in such areas such as corporate governance, supply-chain linkages, and HIV/AIDS.

Donors encouraged IFC to continue its work on investment climate through broader dissemination of information and greater collaboration with the World Bank. They welcomed increased cooperation between donors and IFC in public-private partnerships and urged the Corporation to allocate some of its record net income to support such initiatives. Donors also counseled IFC to help ensure that signatories to the Equator Principles live up to their commitments, and they encouraged IFC to be sensitive to the concerns of nongovernmental organizations with respect to these principles. Donors noted that IFC's project development facilities appeared to be broadening their focus from small and medium to larger enterprises. IFC responded that its linkage programs are helping larger enterprises integrate local SMEs into their supply chains, with substantial benefit to these SMEs. Donors also urged IFC to review trust fund arrangements in order to permit more flexibility in funding innovative technical assistance projects.

World Bank Group-Donor Forum Washington, D.C. April 18-19, 2005

The first joint World Bank Group-Donor Forum on partnerships, programs, and trust funds was held this year at the Bank Group's headquarters in Washington, D.C. It was a response to increasing calls from donors for greater collaboration among the World Bank, IFC, and the Multilateral Investment Guarantee Agency (MIGA). Senior management and staff from all three institutions participated, along with representatives from 27 donor countries and agencies. Attending as observers were the African Development Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, and the International Monetary Fund. Keynote speakers included Mr. Patrus Ananias, Brazil's Minister for Social Action, and Dr. Ngozi Okonjo-Iweala, Nigeria's Minister of Finance. Mr. Geoffrey Lamb, World Bank Vice President for Concessional Finance and Global Partnerships, and Ms. Farida Khambata, IFC Vice President for Portfolio and Risk Management, cochaired the forum.

Mr. Lamb chaired the first day's proceedings, which focused on the World Bank and included discussions on global issues and partnerships, fiduciary aspects of trust fund management, and progress on trust fund reforms. Donors expressed general satisfaction with the Bank's management of the funds entrusted to it and with management's efforts to align trust funds with strategic development objectives. There was broad consensus on the importance of global programs, especially for achieving the Millennium Development Goals, and on the need to link these goals with development priorities at the country level. Donors agreed on the catalytic role that multidonor trust funds can play in addressing issues at the global, regional, and country levels. They endorsed the Bank's efforts to modernize and simplify its trust fund procedures to make them more country- and client-oriented.

The principles underlying the Bank's new policy on expenditure eligibility were generally acceptable to donors. The Bank was urged to

refine further its procedures for the proposed Externally Funded Staff Program, in order to increase diversity and create a level playing field for nationals from different countries. Finally, meeting participants were briefed on the Bank's new investment strategy for trust funds, which is designed to accommodate donors' differences in tolerance for risk.

Mr. Michael Klein, World Bank Group Vice President for Private Sector Development and IFC Chief Economist, chaired the joint session of the World Bank, IFC, and MIGA on private sector development activities. He noted that joint Bank Group and donor support for capacity building and data collection in developing countries is essential for growth, job creation, and poverty reduction. Donors welcomed the Bank Group's collaboration in improving investment climates, developing sustainable extractive industries, and mobilizing foreign direct investment in frontier markets, including postconflict countries. They encouraged the three institutions to continue seeking synergies by working together and cooperating with the donor community. Donors agreed on the importance of governance in the extractive industries, noting that the Bank needed to improve communication about its successes and challenges in this sector. While acknowledging the need for intensified cooperation, Mr. Klein warned against too much harmonization and coordination and emphasized the need for practical and flexible approaches.

Ms. Khambata chaired the IFC session. Donors welcomed IFC's strategy of integrating technical assistance with investment operations, and refining its organizational structure, as this would help the Corporation better leverage its comparative advantage in technical assistance. They cautioned against crowding out, rather than promoting, other private sector interventions in emerging economies. Donors encouraged IFC to deepen its role as a global standard setter in promoting opportunities for environmental and social sustainability in the private sector. They urged the Corporation to provide training support to its clients and partners and to disseminate its know-how and lessons learned more broadly. Donors welcomed IFC's work in enhancing its own capacity for monitoring and evaluating technical assistance, and they encouraged the Corporation to share with the donor community its knowledge and experiences in measuring the development impact of technical assistance. Donors reaffirmed their support for IFC's technical assistance activities in Africa and welcomed the Corporation's new strategy there. Noting the expansion of IFC's work in microfinance, donors acknowledged that upfront subsidies for systems installation or staff training were crucial to long-term viability, and they pledged to continue support for IFC's work in this area. Donors congratulated IFC on its work in renewable energy and urged the Corporation to collaborate on this more closely with the World Bank.

Ms. Khambata explained that technical assistance is no longer an add-on but an integral part of IFC's work. There remains a need for IFC to be more selective, focusing on areas where it has a comparative advantage and leveraging its experience in risk assessment in emerging economies as well as its extensive network of field offices. Going forward, IFC's strategic focus will include investment climate, infrastructure, and microfinance – areas that have developed

dynamically and that need donor support. In addition, Ms. Khambata also explained that IFC is giving greater attention to monitoring and evaluating its TA activities so as to more effectively measure development impact through enhanced systems and procedures.

In response to donors' questions, Ms. Khambata noted that while IFC would prefer untied funds, the Corporation would also be pleased to receive tied funds. On controls and IFC's fiduciary responsibility, she explained that new policies and procedures are being adopted internally to strengthen the Corporation's capacity. She acknowledged the importance of increasing collaboration with the World Bank and agreed with donors on the need for IFC to improve its internal communication and its outreach to the donor community. Ms. Khambata encouraged donors to work with IFC in conceptualizing and implementing new project designs. Ms. Khambata stressed that IFC remains committed to its focus on poverty reduction through private sector development in emerging economies. She concluded by thanking donors for their key support to the goals and work of the Corporation and invited them to consider IFC to be their partner of choice with the assurance of IFC's readiness to work more closely with the donor community.

STEPPING UP COOPERATION WITH THE PHILANTHROPIC COMMUNITY

In the last several years, IFC has worked with foundations and charitable organizations on a variety of projects and initiatives. But opportunities to deepen relationships have often been overlooked. In FY05, IFC began to develop a more strategic approach in this area, focusing on specific sectors.

IFC is now prioritizing partnerships for projects related to environmental sustainability, health and education, rural development, and social entrepreneurship. We are particularly interested in developing opportunities for foundations to use our extensive network of on the ground technical assistance providers to help implement and monitor foundation projects.

Examples of projects in which foundations provided either grants or capital alongside IFC indicate the breadth of opportunities for collaboration:

- IFC, the Ford Foundation, the Skoll Foundation, the Gatsby Charitable Trust, and the Levi Strauss Foundation have each provided capital or technical assistance grants to ShoreCap International and ShoreCap Exchange, both subsidiaries of ShoreBank Corporation. An investment company, ShoreCap International, focuses on microfinance and SME-oriented banks while ShoreCap Exchange provides technical assistance to these investee institutions.
- The Omidyar Network has provided a grant to Hagar, a grassroots business organization with which IFC has had a long relationship.
- Through IFC's Environmental Opportunities Facility, the Acumen Fund has worked alongside IFC to provide grant and equity financing to WaterHealth International, a company that has developed a unique water purification technology. IFC and Acumen have also collaborated in mobilizing additional resources for the company.