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Leveraging Development Impact Opportunities *Through* Technical Assistance

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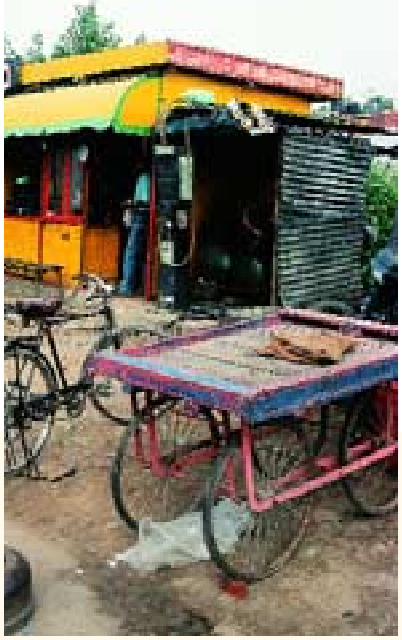

Technical assistance (TA) activities are a significant portion of IFC's activities, helping to enhance IFC's development impact. Many of these activities are central to building the private sector in developing countries, beyond what IFC can do through its commercially oriented investing. They are delivered through a variety of programs/mechanisms across the Corporation (see Chapter 3 and Annex – IFC Donor-Supported Technical Assistance Programs).

Donors provided the majority of the funds needed, which are complemented by contributions from IFC's own budget resources and staff time and, in some programs, by contributions from other World Bank Group sources. These resources enable development activities which would not happen if just left to market players pursuing exclusively commercial return, yet at the same time benefiting from the private sector discipline and orientation that IFC brings to the table.

Focus on Frontier Markets Continues

In its investment operations, IFC maintains a clear focus on countries where there is little or no foreign capital flow or areas and sectors within a country where there is very limited capital availability. IFC also seeks to emphasize spill-over sectors that contribute relatively more to development, i.e., where spillover effects in addition to the economically productive use of capital are significant. These have included domestic financial markets, infrastructure, information and communications technology, and social sectors. In addition, SME development and sustainability continue to have a high priority. IFC's TA activities continue to support and enhance the development impact of these priorities.

A large part of Technical Assistance Trust Funds (TATF) and Private Enterprise Partnership (the Partnership) projects are in **financial markets**, reflecting the fact that about 40 percent of IFC's investments in the last few years were in the financial sector. These TA projects include helping to create and to strengthen a range of financial institutions in member countries – from first private commercial banks in transition countries to microfinance institutions – and developing domestic intermediaries as conduits for IFC financing, enabling more firms to access the kind of long-term funding essential for capital investments. IFC has provided advice to policy-makers, regulators, and institutions in many member countries on market structure, institutional management, and corporate governance.

Going forward, IFC will pursue partnerships with donors interested in financial markets development under three global themes: institution building for banks; diversification into nonbank financial services; and increased financing for SMEs.

The SME Sector – a difficult development challenge - continues to be a high priority of many of IFC's member governments, and a difficult development challenge. IFC finds that financing SMEs through intermediaries provides notably better asset quality than investing in SMEs directly. IFC's SME strategy therefore focuses on (a) continued efforts to create specialized financial intermediaries or extend the services of existing domestic institutions to serve SMEs, and (b) significantly expanded non-investment support to build and effectively utilize domestic capacity and improve the investment climate for SMEs.

As a result there has been a major buildup in microlending and on several high-profile demonstration linkage projects, some of which have been supported by the Capacity Building Facility (CBF). The SME Facilities and PEP have significant field networks that enable the speedy delivery of TA, once programs are designed and funded. They have each developed multiple partnerships with donors and executing agencies in the last two years. The networks are being tapped in efforts such as building supply and distribution chains to link smaller companies to major investors and building business support services and improving the regulatory environment for SMEs.

Major challenges remain in terms of scaling up impact, upgrading assessment of results, finding effective business models for financing small (as distinct from micro) enterprises, and rationalizing the funding of these activities. A number of steps have been taken to make headway on these challenges, in particular the collaboration with International Development Association (IDA) for initiatives to scale up its activities and impact. It is expected that a number of countries will take part in the $225 million pilot program over the next three to four years, drawing funding from IDA credits, IFC and other commercial investors, and other sources. Comprehensive country-specific initiatives will focus on access to financial services, capacity building and business development services, and investment climate and enabling environment (see box, page 12).

Sustainability has emerged in recent years as a new challenge for many businesses in developing countries. As public concerns grow over a broad range of environmental, social and governance issues, companies in these countries face new demands from consumers, investors, trading partners, regulators, and policy-makers. Related opportunities also arise, and the emergence of sustainability as a business issue has found IFC extremely well-positioned to add value to its clients in reducing risks and finding opportunities to reduce costs and gain competitive advantage. By finding new ways to increase convergence between the private interests of firms and the public goods deriving from good environmental, social, governance practices, IFC is able to both help clients and improve the quality of growth in our member countries.

International Banks Follow IFC Lead

In June 2003, ten leading banks from seven countries adopted the Equator Principles, a set of guidelines which were developed and 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. The banks received extensive advice and guidance from IFC, including a screening process for projects that is based on IFC's environmental and social screening process.

The IFC Web site established for the Equator Principles, equatorprinciples.ifc.org, receives on average about 80 visitors per day, for a total of 3,000-plus visitors through July.

The three Social and Environmental Facilities established one year ago are spearheading these efforts along with a Corporate-wide emphasis on mainstreaming environment and social sustainability in IFC's operations.

IFC, in line with the World Bank's own strategic emphasis, is also focusing on strengthening the **investment climates**. Over the longer term, focusing on this area is expected to lead to stronger growth in private sector development. IFC supports governments' efforts on privatization, on attracting foreign investment, and on improving the investment climate – especially for SMEs.

Improvement of Development Effectiveness of Advisory and Capacity-Building Activities

Each of IFC's donor funded operations is tailored to differing yet complementary specific objectives (see Chapter 3 for details) and includes self-assessment of development impact. These systems, with varying evaluation tools, are currently operating independently.

Given the increasing importance of advisory and capacity-building activities, in FY03 IFC initiated an "unbundling" exercise to better recognize the resource implications and to enable a more informed discussion about the mix between these activities and those closely related to IFC's more traditional investment activities. This exercise also includes an effort to create more robust indicators of the development impact of the TA activities, both ex-ante and ex-post, to ensure that the resources are appropriately directed.

Strengthened partnerships among donors, IFC, and local beneficiaries of TA are very important in order for the experience to be shared and the development impact of TA to be scaled up. IFC continues to hold discussions with the donors about their priorities in the regions and sectors of mutual interest so that the development objectives are achieved to the satisfaction of all the stakeholders.

Donor Breakfast *and* Roundtable Meetings

IFC ANNUAL DONOR BREAKFAST MEETING | *Washington, D.C., September 28, 2002*

IFC's Annual Donor Breakfast meeting, held in conjunction with the World Bank/IMF Annual Meetings in Washington, D.C., was chaired by Mr. Peter Woicke, Executive Vice President of IFC and Managing Director of the World Bank. The Donor Breakfast is the main forum for IFC to discuss its programs and activities with the donor representatives. It provides IFC and the donor community with an opportunity to lay out the broad directions of their strategic priorities for the coming year and to review the performance of past or current initiatives.

At the meeting, the donors acknowledged the enhanced role that IFC is playing, and has to continue playing, in the markets at a time when private flows are being retrenched from emerging economies. IFC's support in Argentina (IFC is the only lender that has injected new funds after the crisis) is well recognized by the financial community. Past experiences of countercyclical investments (such as in Korea during the Asian crisis) as well as IFC's approach to selectively assist sound clients in crisis countries illustrate IFC's ability to achieve its development mandate while conducting prudent and profitable business. This contributes to the recognition of IFC as the leading financier for the private sector in emerging markets.

The breakfast meeting comprised two sessions. In the first session, in his opening remarks, Mr. Woicke indicated that IFC would continue to pursue its strategy of emphasizing work on helping to build robust and effective private financial markets, targeting infrastructure investments (including telecommunications, power, transportation, and utilities), and support for the SME economic sector. At the same time, he said, IFC would continue to work with donors, with other development entities, and with private groups to find new tools to promote private sector development. This was followed by an active discussion on various issues, including a possible mechanism for the provision of subsidies in infrastructure projects, and the need for patient capital.

In the second session, presentations were given by IFC staff managing substantial technical assistance programs. The presentations and discussions covered the progress to date and planned future activities of these programs. The participants were generally positive toward discussing further cooperative arrangements with IFC on sustainability, providing innovative public-private financing for selected projects, and helping IFC to extend its expertise to more clients, sectors, and regions.

IFC DONOR ROUNDTABLE MEETING | *Paris, April 15-16, 2003*

The theme for this year's IFC Donor Roundtable was: Beyond Financing: Enhancing Private Sector Capacity Through Partnerships. A broad cross-section of donor representatives attended the Roundtable, as did a delegation of IFC staff, led by Mrs. Farida Khambata, Vice President Portfolio and Risk Management, who chaired the Roundtable. Through a series of IFC presentations and open discussions the Roundtable demonstrated what specific activities IFC and its partners have carried out together to develop the private sector and enhance private sector capacity in emerging client countries. The Roundtable offered an opportunity for a constructive exchange of ideas on strengthening partnerships. The Roundtable also showed how, by strengthening and expanding partnerships, IFC and its donor partners can support new activities with a view to achieving their common poverty reduction objectives. The donors expressed general satisfaction with the Roundtable and welcomed the continuation of an annual IFC Roundtable, to be held at the same time and location, possibly back-to-back with the World Bank Donor Roundtable.

In view of IFC's increasing use of TA in recent years, several donors felt there should be clear guidelines on IFC's priorities and use of TA, and a more strategic and coordinated approach to IFC's donor fundraising efforts so as to avoid confusion and a perception of competing programs. Donors also called for a more direct link between IFC's TA and investment operations, and a clearer policy on the ratio of IFC grants to its investment operations. They cautioned that in providing subsidies to IFC's investments through donor-funded TA, IFC should be transparent in its selection of companies to receive these subsidies, to avoid giving an unfair advantage to certain companies. Many donors stressed the need for a clearer link between IFC's TA activities and poverty reduction through the Country Assisted Strategy (CAS) / Poverty Reduction Strategy Papers (PRSP) process. In particular, they envisioned a closer link to the Millennium Development Goals and a more explicit incorporation of such issues as HIV/AIDS and gender into IFC's operations. They pointed out that most of the world's poor work in the informal and agriculture sectors and IFC should make more of an effort to reach them. Donors also suggested that particular attention be paid to local implementation capacity limitations in the client country, especially with respect to SMEs.

Donors saw an important role for IFC in the area of public-private partnerships, but stressed the need for tailor-made approaches adapted to country circumstances: adequate attention must be paid to regulatory framework and pricing policies; the public partner must be strengthened; a strong, independent regulatory mechanism must be in place; and stakeholders must be actively involved and fully informed. They also called for IFC to play more of a role in facilitating access to credit for municipalities. They welcomed IFC's work on environmental and social sustainability and cautioned that corporate social responsibility should not be limited to larger, export-oriented enterprises but should include smaller, domestic market enterprises.

Donors encouraged IFC to share its TA experience with its partners in a spirit of greater complementarities with the regional banks. They commended IFC's efforts to implement a monitoring and evaluation system that more clearly captures the impact of IFC's TA on poverty reduction. They also endorsed proposals to streamline donor trust funds approval processes and welcomed the trend in the direction of comprehensive framework agreements, given the largely positive experience of several donors with them thus far.