

Multilateral Aid Review: Assessment of International Finance Corporation (IFC)

Summary	
Organisation: International Finance Corporation (IFC)	Date: February 2011
Description of Organisation	
<p>The International Finance Corporation (IFC) is part of the World Bank Group. IFC fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in international financial markets and providing advisory services to businesses and governments.</p> <p>The IFC is the largest Development Finance Institution (DFI) making up c.38% of global DFI investments and it is the only multilateral DFI with a global reach. The UK has a 5.11% shareholding in IFC (which will fall to 4.71% following implementation of the recent selective capital increase).</p> <p>IFC emphasizes five strategic priorities for maximizing its sustainable development impact:</p> <ul style="list-style-type: none"> • Strengthening its focus on frontier markets, particularly the SME sector; • Building long-term partnerships with emerging global players in developing countries; • Addressing climate change, and environment and social sustainability activities; • Addressing constraints to private sector investment in infrastructure, health, and education; and • Developing domestic financial markets through institution building and the use of innovative financial products. <p>IFC's business has two key components - the investment programme and the advisory programme:</p> <ul style="list-style-type: none"> • The investment programme provides loans, equity, guarantees and other financial products to the private sector on which it expects to make a return. It is expected to commit in the range of \$12 billion to \$13.4 billion in 2011 with a projected growth of 6 percent per annum thereafter. Its investment activities are not scored as ODA as they are not provided on concessional terms, but contributions to IFC do score as ODA. • The advisory programme provides advisory services to private companies and to developing country governments. IFC's advisory programme covered 736 projects with expenditures of \$268 million in 2010. 	

Contribution to UK Development Objectives	Score (1-4)
1a. Critical Role in Meeting International Objectives	
+ IFC is the largest DFI and the only multilateral DFI with a global reach.	Satisfactory (3)
+ It is one of few private sector development agencies with significant advisory and investment capacity.	

<ul style="list-style-type: none"> + IFC plays a significant coordination role at the international level – including a strong leadership role in developing approaches to measuring the development impact of private sector projects – But although a leader it does not always provide the leading DFI role or a platform role at country level and in some cases other DFIs are in the lead, including in low income countries = IFC is the central global player in private sector development and a critical part of the international development system. Because other DFIs and donors, including the private sector operations of the Regional Banks are sometimes in the lead it scores a 3 and not a 4. 	
<p>1b. Critical Role in Meeting UK Aid Objectives</p> <ul style="list-style-type: none"> + IFC’s strategic wealth creation and financial inclusion objectives and its objectives to reach the “bottom of the pyramid” are in line with DFID’s objectives. + IFC has transferred \$1.3bn to IDA since 2007. + IFC sometimes contributes directly to MDG delivery through the basic services delivered through the projects it supports, although some of its health and education investments are not targeted at the poorest. + IFC is playing a key role in assisting governments to improve the investment climate in the poorest countries + IFC has a fast growing role in climate change but this is mainly in mitigation. – IFC only has a limited focus in challenging environments such as low income countries (10% of 2010 commitments) and fragile states (5%). – IFC’s investment portfolio is heavily concentrated in middle income countries 89% of the committed portfolio of which 47% is in upper middle income countries. = IFC’s core mandate is well aligned with key UK priorities but to score a 4 would need to have an even stronger role in low income countries 	<p>Satisfactory (3)</p>
<p>2. Attention to Cross-Cutting Issues:</p> <p>2a. Fragile Contexts</p> <ul style="list-style-type: none"> + IFC has created a five-year pilot Conflict Affected States in Africa programme financed in part by other donors which is delivering results, and intended to be rolled out further. + IFC has offices in 15 out of 32 fragile states and investments in 22 of these. IFC’s Advisory Services have 18% of total expenditure in fragile states. – IFC has only a small albeit it growing experience of operating in fragile states – it is not a core strength. 	<p>Weak (2)</p>

<ul style="list-style-type: none"> - However 26% is low compared with most of the other multilaterals assessed by this index. - The IFC allocates a large proportion of its resources to richer middle income countries. 	
<p>4. Contribution to Results</p> <ul style="list-style-type: none"> + IFC can demonstrate good delivery against its objectives 74% of investment projects achieve satisfactory or better development outcome ratings during the period 2007-09. + IFC has strong systems for measuring impact and new systems that are expected to cascade ambition through the organisation. New ambitious outcome targets are not yet disaggregated by country income level. - At country level objectives are sometimes but not always challenging/ambitious with mixed evidence of willingness to innovate and take risks or target the poorest. - IFC investment staff are less decentralised than advisory staff and the Independent Evaluation Group (IEG) find weaker IFC work quality including supervision by IFC staff is a contributing factor determining development outcomes and explaining lower performance in Africa. = Good delivery and strong systems are balanced by some evidence of weaker delivery in critical areas including Africa. 	<p>Satisfactory (3)</p>
Organisational Strengths	Score (1-4)
<p>5. Strategic and Performance Management</p> <ul style="list-style-type: none"> + IFC has a clear strategy for implementing its mandate based around its five strategic pillars, and monitors progress against its Corporate Scorecard. + IFC's results framework is recognised as a leading example among development finance institutions. + The Independent Evaluation Group provides a high quality and independent evaluation function and IFC has a good track record of taking on board recommendations. = Overall IFC is a well run and managed organisation. It has strong strategic and performance management frameworks in place, including output-based targets, and very strong evaluation, which it uses effectively. 	<p>Strong (4)</p>
<p>6. Financial Resources Management</p> <ul style="list-style-type: none"> + Financial management, independent audit and transparency are very strong. + IFC is in the process of implementing changes to its independently validated capital adequacy and financial 	<p>Satisfactory (3)</p>

<ul style="list-style-type: none"> – IFC has historically underused some of its more catalytic or frontier financial products such as guarantees but is starting to use these more. = IFC's financial management is very good. IFC has effective mechanisms in place and is responding to specific shareholder concerns such as the portfolio product mix. 	
<p>7. Cost and Value Consciousness</p> <ul style="list-style-type: none"> + IFC measures financial and economic returns and reports and tracks a number of productivity measures (ie cost/lending volume). Investment per dollar of administration spend has risen in recent years. + Its strong procurement guidelines, evaluation and audit processes also suggest that it is cost effective. – World Bank Group Staff pay mechanism inflates salaries at the IFC and across other MDBs. = Overall IFC's cost control is good, particularly following recent productivity and efficiency reforms. 	<p>Satisfactory (3)</p>
<p>8. Partnership Behaviour</p> <ul style="list-style-type: none"> + IFC forms active global partnerships with other DFIs in areas such as developing approaches to measuring impact. + Existing policies require client companies to engage with affected communities prior to project approval through disclosure of relevant project information, consultation and informed participation. IFC is reviewing its policy to strengthen beneficiary voice with particular focus on vulnerable groups. – Country and project level evidence suggests collaborative efforts are more limited and IFC does not always engage effectively with the donor community or other DFIs – limiting the potential impact of joint efforts. = IFC's partnership behaviour globally is strong but this is not always reflected in strong partnerships at country level. 	<p>Weak (2)</p>
<p>9. Transparency and Accountability</p> <ul style="list-style-type: none"> + IFC's transparency at the HQ level is generally good, with some justifiable limitations due to commercial sensitivity. A significant amount of information is easily accessible in a range of formats on IFC's website. + The voice of developing country shareholders increased by over 6 percentage points following recent reforms. 	<p>Satisfactory (3)</p>

<ul style="list-style-type: none"> - The picture may be less good at country level where there is evidence that IFC's strategy, objectives, results and partners are not always locally disclosed to the public. This can limit local stakeholders' ability to hold IFC to account. = IFC performs well on transparency and accountability with an effective Information Disclosure Policy and accountability mechanisms, but there is room for improvement at country level. 	
Likelihood of Positive Change	Score (1-4)
<p>10. Likelihood of Positive Change</p> <ul style="list-style-type: none"> + Strong past performance eg. Investments in IDA countries increased from \$1.7 billion in FY2006 to \$4.9 billion in FY2010; and the design and implementation of the Development Outcome Tracking System. + Key strategies and pilots in place or under development eg. five-year pilot Conflict Affected States in Africa programme and the intention for 20-25% of new commitments in climate positive investments. + Emerging management engagement with the Board on future strategy and openness to discuss the balance between work in poorer regions and in MICs. - The interests of other shareholders will not always align with UK priorities for the IFC. = Recent performance by IFC has been strong and several key strategies are in place or under-development, however progress in some areas is likely to be constrained because shareholders are not yet aligned behind a single reform agenda. 	<p>Satisfactory (3)</p>