

SECTION II. SCALING UP DEVELOPMENT IMPACT, FY07-FY09

2.1 The rapidly evolving world in which IFC operates, with the benefits of growth and globalization accruing to some developing countries on the one hand, yet the issues of poverty and unemployment persisting in many countries and regions on the other, presents mounting development challenges, as discussed in Section I. There is now recognition that the private sector is key to development as the most important engine of growth and job creation. IFC, as a private sector-focused institution with a global mandate and at the nexus of public and private interests, has an important responsibility in helping to address these challenges and the role it can play is greater than ever. It was with the aim of scaling up its development impact that IFC embarked on its growth plan, approved last year, which is being implemented in pursuit of its five strategic priorities: i) strengthening the focus in frontier markets; ii) building long-term partnerships with emerging global players in developing countries; iii) differentiating through sustainability competencies; iv) addressing constraints to private sector growth in infrastructure, health and education; and v) continuing to emphasize local financial markets development through institution building and by the use of innovative financial products.

2.2 Following the arrival of a new Executive Vice President in January, IFC Management took the opportunity to review, through discussions at the Senior Management Strategy Meeting and the Regional Strategy Meetings, the direction IFC should be taking over the next three years. They did so by first considering IFC from the ‘outside-in’ and in light of the external environment in which it operates, the needs of its clients and its role as a member of the World Bank Group (WBG). They then moved on to an internal assessment of the Corporation to consider how it could build on the strengths it has established over the past several years to achieve greater development impact. The conclusion of this exercise was confirmation of the growth path and the five strategic priorities, and that the growth path should be extended into FY09. There was also agreement that certain areas demanded greater attention and the Management Group therefore set out several Goals (summarized below) to be achieved over the FY06-09 period.

2.3 The main Goal is to increase IFC’s development impact, with a continuing focus on frontier markets, particularly Sub-Saharan Africa. With the growing realization that many of the development challenges can best be met by a combination of public and private solutions, IFC must leverage the resources of the whole WBG in order to enhance overall development impact. Furthermore, IFC can provide benefits to clients and developing member countries beyond finance through its value-added services and leadership on several fronts, particularly environment, social and corporate governance dimensions. An important measure of whether IFC is achieving its development goals is client satisfaction, and IFC is pursuing several avenues in order to address clients’ main concerns. All of these activities need to be underpinned by a strong financial position, and IFC must have in place a risk management framework appropriate for its increasing activities. Finally, the implementation of strategy must be driven by IFC’s most important asset, a good, diverse and motivated staff.

Greater Development Impact

2.4 As a development institution with a mission to reduce poverty and improve people’s lives, IFC has always considered that the developmental and financial success of its investments go hand in hand. IFC has played a catalytic role in mobilizing other sources of private development finance, and has targeted many projects for their demonstration effect. Over the past few years, IFC has grown substantially and its impact has therefore been even more significant. Now that it finds itself in a world where a strong private sector is recognized as key to sustainable growth in developing countries, and has the mandate and resources to expand its business further, IFC must continue to

scale up its development impact through increasing its activity in line with its strategic priorities. IFC's ability to deliver greater development impact will be considerably enhanced by the continued decentralization currently underway (see paragraph 2.10), allowing staff to develop closer contact with local sponsors, particularly in frontier markets, and by developing greater synergy with TA programs and staff, who are already in the field. Several areas will be of particular focus in the near term in increasing IFC's development impact:

2.5 Sub-Saharan Africa and other frontier markets. The focus of IFC's strategy will continue to be frontier markets, with particular emphasis on Sub-Saharan Africa and MENA. These markets require new approaches, in particular to address infrastructure needs and reach SMEs, and there are several innovative initiatives underway, as described in Section III.

2.6 Creating a dynamic and diversified private sector. IFC must strengthen the work it undertakes in many of its member countries, particularly in frontier markets, to help with some of the broader investment climate aspects of developing a strong and dynamic private sector. IFC will continue its privatization and other advisory services to governments, and will work more closely with the World Bank on sector reforms aimed at encouraging private sector development. The "Doing Business" report prepared by the joint World Bank/IFC Private Sector Development Department is an important tool to help governments to understand shortcomings in the investment climate in their countries and to prioritize steps to address them.

2.7 Measurement. In order to assess whether it is achieving its goals, IFC must be able to measure its development impact, and there are several initiatives underway to strengthen measurement. Increasing activity in the priority areas will be the key for *ex ante* measurement, using the Corporate Scorecard indicators (see paragraph 3.2 and Annex 2). IFC will use the Development Outcome Tracking System (DOTS), which was recently rolled out, for *ex post* measurement of how well it is achieving the development impact targets, in addition to existing *ex post* measurement and evaluation by IEG. Performance indicators have also been introduced for Technical Assistance and Advisory Services, and all TAAS projects will be subject to measurement and evaluation. (see paragraphs 3.7 to 3.9 on Measurement)

2.8 TAAS. It has become increasingly clear that an important part of IFC's impact is its TAAS work, especially in frontier markets, and IFC has now taken steps to align TAAS activities with its strategic priorities through formulation of five TAAS Business Lines and establishment of new processes for the approval, monitoring, supervision and resource allocation of TAAS. The move towards better focused TAAS will continue, alongside a scaling up of these activities. Paragraphs 3.4 and 3.5 provide more details.

Better World Bank Group Collaboration

2.9 IFC and other members of the World Bank Group already work together in many areas, but senior management of all the WBG institutions now recognizes that this collaboration needs to be further increased in order to enhance the WBG's effectiveness. With the World Bank focusing on policies and projects which prepare the ground for private sector solutions, IFC and MIGA are then better placed to support investments which will encourage other private investors. Through their experience in assessing the impacts of their projects, IFC and MIGA can then provide input into the design of future World Bank interventions. In addition, there is considerable scope for World Bank/IDA, MIGA and IFC to work together directly on focused areas, particularly in infrastructure, financial markets and investment climate. Several working models of extensive collaboration are evolving, for example the one in Sub-Saharan Africa (see Box 2.1, and also Boxes 3.1 and 3.2). Further, through the Country Assistance Strategy (CAS) process IFC continues to bring forward the private sector development perspective, and greater World Bank input will be sought in IFC strategy

discussions. As a first step, senior representatives from relevant World Bank regions attended and contributed to all of IFC's recent regional strategy meetings.

Box 2.1. World Bank/IFC Collaboration in Sub-Saharan Africa

IFC and the World Bank are approaching collaboration in a systematic way in the region to enhance the effectiveness of the whole WBG on the ground. The institutions are working together both at the strategic level and the sector and country levels. Below are some examples of how this collaboration is working on the ground. (See also Boxes 3.1 and 3.2.)

Strategy

-Africa Action Plan (AAP): IFC collaborated on the formulation of the private sector development component of the AAP. The three priority areas of IFC's Africa strategy complement the growth agenda of the AAP.

-Private Sector Development: IFC and the World Bank are developing a framework for collaboration aimed at scaling up at the country level. This will involve a mapping exercise the results of which will be used to refine the proposed framework of collaboration and develop an Implementation Action Plan which will then be tested in a few countries.

-Country Assistance Strategies: Recent and ongoing examples of collaboration include Uganda, Senegal, Mauritania, Madagascar and South Africa.

Investments

-Infrastructure: IFC and the World Bank's Africa Infrastructure Department jointly identify client countries, sectors and projects for collaboration and jointly engage governments and private sector players. In addition to the Kounoune power project in Senegal described in Box 3.2, recent and ongoing examples include Toamasina Container Terminal in Madagascar, AES Sonel in Cameroon and the Kenya/Uganda Railway Concession. In the Toamasina project, the process of institutional reform of the port sector and its implementation for the Port of Toamasina was initiated by the World Bank, and the structuring and implementation of the transaction were conducted by IFC. AES Sonel involves a potential IFC investment and World Bank assistance with sector reforms and other investments for a project where IFC advised on privatization. IFC was asked by the Government of Kenya to assist with the tender and bidding process for the Kenya/Uganda Railway Concession, and IFC and the World Bank are looking at financing of the new concession. IFC support also includes a linkages program. There are many other potential opportunities for collaboration in infrastructure which IFC and the World Bank are discussing.

-Oil, Gas and Mining: the joint IFC/World Bank Department works closely with other areas of the World Bank to address policy issues, transparency and governance as well as infrastructure issues. In particular, the World Bank is doing a lot of work in the areas of revenue management, capacity building and business environment which paves the way for private sector involvement in projects.

-Financial Sector Cooperation - IDA/IFC Africa MSME Pilot: In December, 2003 the Board approved a joint IDA-IFC micro, small and medium enterprise (MSME) program for Africa. World Bank and IFC teams prepare and process the IDA projects and separate IFC transaction teams process related IFC investments. Other examples include joint work on securities market development assistance and collaboration in leasing market development.

-Technical Assistance: PEP-Africa, IFC's TAAS facility in the region, currently has three programs in the pipeline and two at the implementation stage that are being designed/implemented with the World Bank. These are in Democratic Republic of Congo, Mozambique, Madagascar, Burkina Faso and Cape Verde.

-Africa Investment Climate Facility: Improving the business environment has become an important aspect of IFC's strategy in Sub-Saharan Africa. In order to scale up efforts and help improve donor coordination in this area, IFC, through the joint World Bank/IFC Private Sector Development Department, is considering a contribution from FMTAAS to the Africa Investment Climate Facility. The facility is being put together as a public-private partnership under the auspices of the New Partnership for Africa's Development (NEPAD) and was endorsed by the Gleneagles summit last year. It promises to promote investment climate reform using clear metrics and enhanced donor coordination. If IFC decides to proceed with this initiative it will revert to the Board for approval.

Improved Client Satisfaction

2.10 In the most recent (2004 and 2005) Client Surveys, the percentage of clients expressing satisfaction with IFC's overall services was at around 80%. This is a good score but could be further improved. The main areas for improvement concerned IFC's speed and flexibility. IFC is addressing this in two ways: i) further decentralization through a pilot in Asia; and ii) process review and improvements. The pilot will involve: i) increased deployment of staff to the field, including specialized sector expertise and support from Credit, Legal and Environmental and Social staff; and ii) clearly delineated delegation of management approval authority to the field, along with appropriate checks and balances. The pilot will test the decentralization of decision-making, and the resulting improvement in the efficiency of transaction processing for IFC's local client base. The Corporation is also making progress on the process review and improvements, with the review of a particular segment (commitment to disbursement) of the investment process as a starting point. The preliminary outcome of the review is encouraging with scope for significant efficiencies identified.

Leadership in Standard Setting

2.11 IFC has already assumed a leading role in several areas, in particular in environmental and social standards with the recent adoption of the new Performance Standards (see paragraph 3.34). Its work in promulgating the Equator Principles, which, as of March 31, 2006, had been adopted by 41 leading commercial financial institutions which collectively account for more than 85% of global project finance, is another important example. The 41 EPFIs are expected to adopt a new set of principles reflecting the new Performance Standards. IFC, together with the EPFIs, is now working to extend their use to other types of institutions. Other important areas of focus include corporate governance (see paragraph 3.27) and anti-corruption (see paragraphs 3.97 to 3.99).

Maintain Sound Finances

2.12 In implementing its growth strategy and pursuing its goal of greater development impact, IFC must not lose sight of the importance of remaining a financially sound institution. This involves not only careful selection and management of its investments but also adoption of an appropriate risk framework, this latter being particularly important in light of the planned growth and increasing decentralization. IFC has recently begun a review of its risk management practices, and a report will be made to IFC Management within a few months. See also paragraphs 3.88 to 3.91.

Good, Diverse, Motivated Staff

2.13 As highlighted in the last Strategic Directions Paper, employing the right people to implement the strategy is a challenge, and this remains the case today, especially for more senior staff. The recruitment drive to hire diverse and skilled staff is currently underway, and IFC is working on putting in place the training, incentives and performance measures which are necessary for these staff to become fully effective as soon as possible. Human Resources issues are more fully discussed in paragraphs 3.81 to 3.87 and Annex 3.