

FAST TRACK BRIEF

About IEG-IFC

IFC's Independent Evaluation Group (IEG-IFC) independently evaluates IFC's investment and advisory services operations and reports its findings to IFC's management and Board of Directors. IEG-IFC is a resource for helping staff understand what IFC has learned and how IFC can do better business in the future.

About Fast Track Briefs

Fast Track Briefs help inform the World Bank Group (WBG) managers and staff about new evaluation findings and recommendations. The views expressed here are those of IEG and should not be attributed to the WBG or its affiliated organizations. Management's Response to IEG is included in the published IEG report. The findings here do not support any general inferences beyond the scope of the evaluation, including any inferences about the WBG's past, current or prospective overall performance.

Online access

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Biennial Report on Operations Evaluation in IFC 2008

Enhancing Monitoring and Evaluation for Better Results

The Biennial Report on Operations Evaluation (BROE) in IFC assesses the adequacy, coverage, and quality of monitoring and evaluation (M&E) in IFC and makes recommendations for improvements going forward. It covers IFC management's M&E of its performance and also IEG's independent evaluation activities.

The report's main findings are:

- In the last three years, IFC has made advances in monitoring and evaluating its performance: (i) new M&E tools have been introduced to cover all active investments and advisory services operations; and (ii) the use of M&E results in informing IFC strategy and in linking incentives to project results has grown.
- IFC's Development Outcome Tracking (DOTS) and Expanded Project Supervision Report (XPSR) systems complement each other: DOTS is a monitoring system and XPSR is an evaluation system. As such, DOTS has more breadth while the XPSR system has more depth of coverage.
- Some important gaps remain in IFC's M&E activities, including: (i) shortcomings in the quality of advisory services self-evaluations and IFC's development reach indicators; (ii) lack of systematic monitoring of IFC's additionality; and (iii) underdeveloped systems and methods for assessing IFC's effectiveness beyond the project level, particularly at the country or sector level.
- In light of IFC's growing and changing business, IEG has: (i) increased the scope of its evaluation activities; (ii) enhanced the transparency of IFC's performance through the disclosure of all IEG corporate, thematic, and sector evaluations; and (iii) made progress in assessing IFC's additionality. IEG needs to work in closing some gaps going forward by: (i) better disseminating evaluation findings among staff in the field; (ii) lowering the transaction costs of joint evaluations; and (iii) completing its own results framework and related targets and benchmarks over the coming years.
- The report recommends that IFC management and IEG develop more robust and consistent metrics for monitoring and assessing IFC's additionality and development impact at the sector and country levels, as IFC transitions to a more programmatic approach in its interventions.

The M&E Landscape of IFC's Results

The demand for M&E of IFC's results has grown since March 2006 when IEG last reviewed M&E in IFC. IFC's activities have continued to expand—in volume, geographic coverage, and product range. This has made IFC a more prominent player within the World Bank Group (WBG) and more generally in the development community. Greater visibility invites greater scrutiny and a greater interest in assessment of IFC's development performance. As commercial capital flows to private businesses in developing countries have expanded (particularly in middle-income countries such as China, Brazil and South Africa), interest in understanding IFC's additionality—or unique value added—has grown. The demand for M&E of IFC's results should also be seen in the context of the call for greater accountability of public institutions both national and international and for how taxpayers' money is spent.

M&E in IFC has two parts: M&E, carried out by IFC management, and independent evaluation, conducted by IEG. Each part of the evaluation system has responded to the changing demand dynamics with new activities. Concerning M&E, IFC has introduced new instruments to track the project results of its investment operations and to self-evaluate its advisory services interventions and is implementing a new disclosure policy. In independent evaluation, IEG discloses its corporate, thematic, and sector evaluations and has increased the range of its evaluation activities to cover IFC Advisory Services, more IFC investment operations, a new framework for assessing additionality, more country evaluations, and joint evaluations with other multilateral development banks (MDBs).

M&E of IFC's Results

In the last three years, IFC has made advances in tracking the development performance of its operations. There is commitment at the top to strengthen the measurement and reporting of the development impact and additionality of IFC operations. IFC has rolled out DOTS, a new monitoring system that tracks the development performance of all active IFC investments. The monitoring system complements the existing XPSR system in providing development results data on a wider number of active investment operations, in offering a leading indication of development performance with respect to XPSR assessments, and in tracking results through to project closure. The XPSR system, for its part, provides deeper analysis of project development performance, derives lessons, estimates the contribution of the operation to IFC's profitability, and assesses the quality of IFC's work in structuring, appraising, supervising, and administering the operation, including the quality of IFC's unique role and contribution to the project. DOTS is a work in progress, but it

already shows a relatively high degree of consistency—about 80 percent of the time—with the ratings of the well-established XPSR system.

IFC has piloted a self-evaluation system for advisory services operations—the Project Completion Report system (PCR)—and supplemented this with external evaluations of particular advisory services projects and programs. It has begun to carry out country-level assessments of performance through participation in WBG Country Assistance Strategy Completion Reports (CASCs). IFC has also used aggregated DOTS data to track and report development results and reach by region, sector, and for IFC as a whole.

As M&E activities have grown, so has their use within IFC. M&E and independent evaluations of IFC's development performance are now used to inform IFC's strategy development, as well as progress with corporate initiatives such as decentralization. Of particular significance are the mechanisms that have been introduced to link incentives (through performance awards) at different levels, including at the level of individual staff, to project results. In doing so, IFC has been at the forefront of performance measurement related to private sector development among MDBs.

Important gaps remain in IFC's M&E activities. At the project level, IEG's review indicates a number of areas for improvement. First, while DOTS data quality (covering investment operations) has improved over the second half of fiscal year 2008, it will need to be sustained if IFC is to achieve consistent accuracy throughout the reporting cycle. For advisory services self-evaluations, quality shortcomings have been more substantial. However, the evaluation system which is relatively new and is based on a new methodology (to a large extent DOTS is based on the existing XPSR framework, whereas, there was no approach for evaluating advisory services prior to the PCR system) can be expected to take time to get established. Second, IFC has started reporting its development reach with reference to benefits that have accrued from its investments, such as numbers of people employed and number of patients served. At this stage, reach indicators cover less than 60 percent of IFC's portfolio companies and do not have clear links with IFC's contributions to a project. Third, while IFC has taken steps to better articulate additionality in new operations, IFC has yet to follow through with systematic monitoring of its additionality—crucial for understanding how IFC can best complement commercial finance and optimize its contributions to project development effectiveness.

More broadly and importantly, at the country, region, and sector levels, IFC needs to develop systems for monitoring and evaluating its additionality—including its catalytic role in

facilitating private investors in making good investments through financial, operational, and institutional contributions—and development impact—including effects on incomes, poverty, and the environmental and social dimensions—beyond simply aggregating some of the benefits from individual interventions and reporting the volume of new investments. IFC employs corporate and departmental (by region and sector) scorecards of performance. However, they tend to emphasize new business activity in certain areas as rough estimates of expected development results and additionality. The CASCs, conducted jointly with the World Bank, are one instrument for assessing IFC's performance at the country level. However, IFC's involvement in CASCs has been largely superficial to date. To some extent, the situation with assessing IFC's development impacts and additionality beyond the project level reflects the nature of the institution, with process and accountability focused around individual investments and advisory services operations. IFC is in the process of transitioning towards a more programmatic approach to interventions, and will need to establish systems and methods for assessing its effectiveness beyond the project level, particularly at the country and sector level of operations.

Independent Evaluation of IFC's Results

A core function of independent evaluation is to provide checks and balances on the M&E systems by objectively validating the results they produce. Self-evaluation of IFC investment operations shows broad consistency with IEG's assessments over the last three years, with a annual average rating discrepancies of between two to five percentage points. These gaps have been stable in the similar range throughout the history of the system and there are no distinct patterns across departments, regions or sectors. Through the pilot phases of IFC's M&E program for advisory services, IEG has reviewed self-assessment of IFC's performance and has highlighted initial data quality concerns that IFC management is now seeking to address. Going forward, IEG will provide validation through the introduction of evaluation notes for advisory services. Judged against international good practice standards, which cover both self and independent evaluation, the project evaluation system in

IFC shows strong compliance—with over 90 percent adherence to MDB good practice standards. Most areas of current non-compliance relate to experimental standards—those that are not essential in ensuring comparability among the MDBs or for having a satisfactory evaluation system.

As with M&E, independent evaluation needs to be made more effective going forward: (i) Since 2005, IFC staff have become increasingly decentralized and reaching out to them with lessons from evaluation has become more challenging. IEG has not been able to provide staff with full access to its lessons database during this period, but is now finalizing a Web-based lessons database and is intensifying efforts to disseminate evaluation findings among staff in the field; (ii) IEG has explored the connection between risk, development performance, and IFC work quality, but IEG and IFC need to make further advances in this area; (iii) IEG has taken the opportunity to extend its participation in joint evaluations, particularly with IEG-World Bank, but faces a number of challenges in maximizing its value added, for instance, in developing a consistent methodology for assessing IFC's country and sector-level contributions and in minimizing the transaction costs involved in joint evaluations; (iv) IEG is yet to extend its reach to offer an in-depth coverage of topics that are emerging as areas of strategic importance and interest to IFC and its Board of Directors, such as process and impact evaluation; (v) gaps remain in IEG's methodology for evaluating IFC's development impact and additionality in advisory services operations, and at the country and sector levels; and (vi) IEG will also need to develop its own results framework and related targets and benchmarks over the coming years.

Following the introduction of its new Disclosure Policy, IEG began disclosing its macro studies. IEG's evaluation outputs are now increasingly available to external audiences. This development helps inform external stakeholders about IFC's performance, and stimulates a debate about private sector development in general. The initial reaction to IEG's macro studies has been largely positive, but IEG has yet to develop hard measures to assess the uptake of and satisfaction with its disclosed products.

CONCLUSIONS AND RECOMMENDATIONS

Recommendations for IFC Management

- IFC should consider developing more robust and consistent metrics for monitoring and assessing its additionality and development impact at the sector and country level as IFC transitions to a more programmatic approach to interventions. To start with, IFC may wish to focus on sectors and countries in which it has taken a programmatic approach, and where there has been a critical mass of IFC activities.
- IFC should aim to expand the coverage of its portfolio in reporting on results. It should improve the portfolio coverage of reach indicator and report the development results of its entire mature portfolio.
- IFC should strengthen managerial oversight of M&E for data quality and ratings for both investments and advisory services with proper record-keeping functions. For advisory services in particular, in order to improve quality, IFC may need to introduce some minimal acceptance standards for PCRs.

Recommendations for IEG

- IEG should further develop its system for evaluating IFC's additionality and development impact at the sector and country levels.
- IEG needs to complete its own results framework and develop a scorecard with related targets and benchmarks.
- IEG should continue its efforts to harmonize evaluation methodologies in the context of the Evaluation Cooperation Group's Working Group on Private Sector Evaluation to enable comparability among MDBs and for enhanced benefits of joint evaluations, including with IEG-World Bank.

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