Assessing the Monitoring and Evaluation Systems of IFC and MIGA
Biennial Report on Operations Evaluation

—Overview—
The World Bank Group

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The Independent Evaluation Group

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The Independent Evaluation Group (IEG) is an independent unit within the World Bank Group. It reports directly to the Board of Executive Directors, which oversees IEG’s work through its Committee on Development Effectiveness. IEG is charged with evaluating the activities of the World Bank (the International Bank for Reconstruction and Development and the International Development Association), the work of the International Finance Corporation in private sector development, and the guarantee projects and services of the Multilateral Investment Guarantee Agency.

The goals of evaluation are to learn from experience, to provide an objective basis for assessing the results of the Bank Group’s work, and to provide accountability in the achievement of its objectives. It also improves Bank Group work by identifying and disseminating the lessons learned from experience and by framing recommendations drawn from evaluation findings.
Biennial Report on Operations Evaluation
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—Overview—
<table>
<thead>
<tr>
<th>Contents</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABBREVIATIONS</td>
<td>iv</td>
</tr>
<tr>
<td>ACKNOWLEDGMENTS</td>
<td>v</td>
</tr>
<tr>
<td>BIENNIAL REPORT ON OPERATIONS EVALUATION: ASSESSING THE MONITORING</td>
<td>1</td>
</tr>
<tr>
<td>AND EVALUATION SYSTEMS OF IFC AND MIGA</td>
<td></td>
</tr>
<tr>
<td>MANAGEMENT RESPONSE</td>
<td>9</td>
</tr>
<tr>
<td>CHAIRPERSON’S SUMMARY: COMMITTEE ON DEVELOPMENT EFFECTIVENESS</td>
<td>19</td>
</tr>
<tr>
<td>STATEMENT BY THE EXTERNAL EXPERT PANEL</td>
<td>21</td>
</tr>
<tr>
<td>CONTENTS OF THE COMPLETE EVALUATION</td>
<td>25</td>
</tr>
</tbody>
</table>

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Abbreviations

BROE Biennial Report on Operations Evaluation
CDI Development Impact Department (IFC)
DFI Development finance institution
DOTS Development Outcome Tracking System (IFC)
E&S Environment and social
IDG IFC Development Goals
IEG Independent Evaluation Group
IFC International Finance Corporation
MIGA Multilateral Investment Guarantee Agency
M&E Monitoring and evaluation
PCR Project Completion Report
PSD Private sector development
XPSR Expanded Project Supervision Report (IFC)
Acknowledgments

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The development paradigm has shifted toward private investment, and the private sector has become central in development strategies. Consequently, the shares of support provided by the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) have grown, rising in the past decade from 21 to 35 percent of Bank Group financing.

In line with their new priorities and growing responsibilities, IFC and MIGA have adapted and are improving their monitoring and evaluation (M&E). IFC is a leading player among private sector development (PSD) agencies in monitoring, evaluating, and disclosing its development results. It has developed systems for investments (Development Outcome Tracking System—DOTS) and an advisory projects results measurement system. Its indicators and development targets are used in corporate and departmental scorecards, in strategies, and in the IFC Development Goals (IDGs). They are embedded within business processes and are influencing internal staff incentives. IFC uses self-evaluation extensively, with oversight by the Development Impact Department (CDI); it also publishes results data in its annual report.

MIGA’s M&E is constrained by its business model as a political insurance provider. The arms-length nature of its relationship with the project company also limits the scope and depth of M&E. Despite this challenge, MIGA has recently started a self-evaluation system and developed a new Development Effectiveness Indicator System. Management intends to push results measurement further.

This Biennial Report on Operations Evaluation is an evaluation of these systems. It takes stock of the strengths and weaknesses of the development results...
frameworks in place for IFC Investment Services, IFC Advisory Services, and MIGA guarantees, and determines whether they (1) provide mechanisms to generate credible, timely, and relevant information; (2) support evidence-based decision making and learning; and (3) improve the performance and results of IFC’s or MIGA’s activities. Where they fall short, this report offers recommendations for improvements.

**Credibility, Timeliness, and Relevance of M&E Information**

**M&E Systems for IFC Investment Projects.** IFC uses DOTS to monitor the development results of its investments from screening and appraisal until closure. DOTS contains standard indicators to aggregate results and compare them across regions and industries. Investment staff fill in baseline, target, and timeline information for each indicator. The indicators are updated annually and are rated against targets in four dimensions—financial, economic, environment and social, and PSD—and IFC additionality of projects. More than 300 indicators are in use, but the Independent Evaluation Group (IEG) has found gaps in use of indicators for PSD, which is IFC’s key mandate. There seems to be a trade-off between standardization of indicators, which allow for aggregation at the corporate level, and relevance—42 percent of staff reported that there were many instances where the mandatory indicators for DOTS were not sufficient to represent the project’s expected development impact.

Furthermore, information is limited on results for end beneficiaries of IFC’s financial sector projects. In practice, DOTS tracking is based on “proxy” figures from the financial institutions’ portfolio, such as number of loans given to a targeted business segment and the quality of that portfolio. IFC has limited knowledge about the underlying results on its end-beneficiaries, and any claims would be difficult to attribute to the IFC intervention. IFC has attempted to narrow the gaps recently by completing studies on small and medium-size enterprise loans and conducting project-level assessments.

The data are timely and to a substantial extent relevant. Most data are supplied by clients, and where they are derived from audited financial statements they are of high quality. IFC has an annual data quality review cycle, but some indicators were just estimates and these were not verified at the source. The review of the annual report’s external assurance was focused on data integrity and quality control process within IFC and did not contact clients or parties outside IFC to validate the data received.

IFC uses Expanded Project Supervision Reports (XPSRs) for self-evaluation of a representative sample of mature investments. IEG independently reviews the XPSRs. Their quality traditionally has been high, but has deteriorated significantly over the past two years.

**M&E Systems for IFC Advisory Services Projects.** IFC’s Advisory Services provide advice, problem solving, and training to companies and governments. They grew more than tenfold in expenditures and sixfold in staffing between FY01 and FY12. The M&E system is embedded in the project cycle from design to completion in a new information technology platform (Advisory Services Operations Portal). A logical framework model guides project design, and each business line has a standard framework with indicators for outputs, outcomes, and impacts. It is updated with semi-annual supervision reports, and projects are evaluated in a final Project Completion Report (PCR). There are results measurement officers in each business line and in the regions who have strong roles throughout the project cycle. There are three levels of data quality control: project officers, results measurement officers, and CDI staff.

In FY10, Advisory Services reformed its financial management to strengthen client commitment to implementing advice and to better ensure that any subsidies are warranted based on the degree of public benefits they will realize. IEG found that the financial system faced challenges. In particular, for projects closed between 2008 and 2010, the system did not indicate the clients’ in-kind contributions or parallel contributions, so it was difficult to verify actual client contributions against the original budgets as a part of evaluation of project efficiency.

PCRs are Advisory Services’ instrument for self-evaluation for all closed projects. They assign ratings that are independently reviewed by IEG. Based on a review of PCRs for projects closed between 2008 and 10, IEG has found that the quality of PCRs has been improving, as they contained appropriate baseline data and useful and structured lessons. These have sharply increased the number of lessons that can be applied to future operations. The presence of qualified results
measurement specialists in the field offices also helped the quality improvement.

But the same review indicated challenges in assessing outcome and impact—for many projects it was premature to judge their outcomes that could not be observed at the time of project completion and impossible to project accurately the medium- to long-term effects. One reason for gaps in capturing outcomes and impacts was the establishment of objectives that are not achievable by the time of project closure. Since FY10, Advisory Services has revised its project objective setting approach to determine what is achievable within the project’s timeframe and budget, and stated that it will aim to capture intermediate results of projects. Furthermore, IFC has been conducting some selected evaluations on projects or groups of projects postcompletion, although they are not systematically conducted and not reviewed or validated by IEG.

**MIGA’s Development Data Gathering.** MIGA is constrained by the fact that its business model is based on an arms-length relationship with the project company, and access to project information is not automatic. Nevertheless, there are new activities that indicate a more active role in measuring development results. MIGA adopted a monitoring strategy in 2011 limited to tracking compliance to MIGA’s environmental and social (E&S) performance standards. MIGA uses environmental and social performance standards and guidelines similar to IFC’s. The applicable E&S requirements are explicitly stated in every MIGA Contract of Guarantee along with the E&S reports that must be submitted to MIGA. In the same year, MIGA introduced the Development Effectiveness Indicator System to collect sector-specific indicators and six standard development impacts indicators for each project. Project data are collected twice—at the time of underwriting and three years after a project enters the portfolio—but it is premature to evaluate the effectiveness of the system for this report because only ex ante data have been collected to date and the system is still in its early stages.

**MIGA Self-Evaluation.** Prior to 2010, IEG conducted independent development outcome evaluations of MIGA projects. In 2010, MIGA’s operational staff began self-evaluations with an emphasis on learning and so far has conducted 17 self-evaluations. IEG found that the self-evaluation program has been useful for staff, giving them a better understanding of projects’ development impacts and knowledge of MIGA’s policies and procedures. Active participation by MIGA underwriters, economists and E&S specialists in self-evaluation with project site visits and stakeholder consultations, though costly, has provided an effective platform for learning. There is scope to improve the program design to increase knowledge about results and derive lessons. Also, the program’s coverage is not sufficient to accurately assess MIGA’s overall performance. Since the initial cost of establishing and implementing the system was high, MIGA is working with IEG to identify ways to reduce cost per project and streamline self-evaluation. MIGA has also strengthened corporate-level monitoring and reporting by introducing a set of key performance indicators reported on quarterly to the corporate executives since 2009.

**Support for Evidence-Based Decision Making and Learning**

This evaluation comes at a time of growing focus of IFC on development results: building a shared corporate understanding of what they are; strengthening the results measurement systems; and improving feedback into strategies and operations. The new IDGs prioritize select reach indicators of development results tracking tools for both investment and advisory services to assess progress against targets, and the M&E system is integrating various tracking mechanisms (such as credit risk and environmental and social compliance) into a results management system.

IFC’s results measurement system incorporates “reach indicators” that measure the number of people reached by IFC clients or the dollar benefits to particular stakeholders, regardless of IFC’s investment size. The IDGs, which specify institutional targets for benefits or other tangible outcomes, are built on reach indicators. It is important to note that reach indicators relate to IFC’s client activities and cannot be attributed solely to IFC. Moreover, they do not capture incremental benefits compared to the situation without IFC’s intervention. Given the strong emphasis on IDGs in IFC’s business decisions, there is a risk that they lead to misalignment of incentives. For example, although it is too early to evaluate any changes in behavior, staff might focus on measuring large reach numbers for IDGs rather than paying attention to delivering meaningful impact that IFC projects could bring to people and society.
Monitoring for strategies’ implementation has been evolving, with greater standardization of indicators to enable aggregation of development results. Development results ratings from DOTS and CDI-assigned Advisory Services PCRs are the main indicators for development outcomes, and there is growing use of reach indicators to measure progress. IFC has generally adjusted its strategies when indicators have shown that performance was lagging. Some strategies incorporate lessons from M&E and results from external evaluations. There are some important strategic areas that do not have overarching reach or outcome indicators, such as promoting competitive markets and competitiveness. Because of the growing importance of initiatives, strategies, and programmatic approaches, IFC has conducted some sector and thematic evaluations to derive lessons to guide future strategic choices, but these have not been conducted in a systematic way, and introduction of an evaluation policy would contribute to enhanced selectivity of sector and thematic evaluations.

Integrating Investment Services and Advisory Services has been a frequent component of strategies as articulated in the form of joint Investment and Advisory Services initiatives stated in IFC investment board reports. Advisory Services have been intended to unlock market potential, enabling entry of IFC and private investment and enhancing the sustainability and development impact of IFC investments. There are similarities in the two M&E systems for Investment and Advisory Services projects; however, there are many differences that could be obstacles to sharing information and operational lessons that could be relevant for both types of activities, including in linked Investment and Advisory Services projects. Moreover, harmonization of indicators between the two M&E systems would enhance close collaboration and enhance complementarities.

In addition, the learning effects of XPSRs are not fully utilized. After recent changes in the format of project approval documents—dropping the section on lessons—lessons may not be adequately considered going forward. Based on a review of XPSRs, IEG has found that recognizing and acting on lessons can improve project selection and structuring. In a sample of unsuccessful projects, existing lessons related to the factors that contributed to the failure were overlooked in the early review process; even when lessons were identified, they were not factored into project appraisal and structuring.

MIGA has progressively scaled up its self-evaluation of development results of guarantee projects since FY10 and the system is now mainstreamed. A self-evaluation is performed by senior operational staff who also prepare other new projects, so it is expected that evaluation lessons will be internalized and will influence future projects and the quality of underwriting. In a survey of MIGA staff with experience of self-evaluations, more than 70 percent responded that they improved their understanding of development impacts.

**Impacts on Project Quality and Development Outcomes**

M&E is expected to improve IFC’s investment and advisory project results. This should occur through better project design, timely and appropriate interventions during implementation, and better strategic focus. Regression analysis based on IEG’s investment project evaluations found that high-quality screening, appraisal, and structuring work that includes using lessons from evaluations mitigated high-risk elements such as sponsor risk and delivered positive development outcomes. This suggests that it is worthwhile to take risks for better results, conditional on IFC learning from its evaluative lessons—both of successes and of failures—but appropriate actions at the appraisal/screening stage should be undertaken to recognize and anticipate these risks.

M&E influences an advisory project’s outcome by providing (1) a roadmap—clear objectives, baseline data, and relevant indicators—for a project to achieve its results and (2) an instrument for corrective actions during execution. Regression analysis of data for 202 advisory PCRs suggests that M&E has worked through both of these mechanisms—better design and more effective implementation have led to better outcomes.

In MIGA, self-evaluation has had its principal benefits through staff learning. But evaluation experience has also helped in updating MIGA’s Underwriting Guidelines to ensure consistency and improve due diligence.

**Efficiency of M&E Systems**

IFC spends about $14 million per year for core M&E activities with about $8,000 per investment project and about $9,400 per Advisory Services project. The costs of M&E per investment project are a relatively low share of
Although the share of M&E costs in MIGA's budget is in line with or below comparators, the cost per evaluation is estimated at $40,000, because of senior staff participation in MIGA self-evaluations. The lack of periodic tracking of project performance also requires field data collection and stakeholder interviews at the time of evaluation, which has cost implications.

Finally, the emphasis on learning by involving MIGA operational staff in undertaking self-evaluation means that its capacity to conduct a large number of self-evaluations is constrained. Because many staff have now been exposed to self-evaluation, it is anticipated that the cost per evaluation will decrease. Nevertheless, a critical challenge for MIGA's evolving M&E system—to expand coverage while reducing significantly the unit cost per evaluation—remains. This requires finding a cost-effective way of measuring the development effectiveness of MIGA projects that is consistent with MIGA's business model as a political risk insurer.

The efficiency of IFC and MIGA M&E systems appears reasonable—the total spending is 2.5 percent of administrative budget for IFC and about 1 percent for MIGA. As an illustration, for IFC, the M&E expenditures can be recouped by a very minor effect on average return on investments through the influence of M&E information on IFC's work quality and ultimately on development results and IFC's financial returns. Better equity returns for IFC through higher work quality can easily justify M&E expenditures.

**Conclusion and Recommendations**

IFC and MIGA have increased their emphasis on measuring and assessing their contributions to economic development and, overall, their M&E systems are becoming better equipped to inform decision making for greater development impact. In the case of IFC's Investment and Advisory Services, M&E seems to be contributing to better project results by improving project design, aiding in timely and appropriate interventions during project implementation, and strengthening the strategic focus. IEG has a series of recommendations for IFC and MIGA to make further improvements.

In light of these findings, IEG has three recommendations to improve the quality of M&E for Investment Services projects:

*Where there are specific PSD objectives for investment projects, at least one relevant PSD indicator should be systematically tracked in the DOTS.* PSD such as improved competition, demonstration effects of a business model, or host country sectoral transformations is a rationale for many IFC investments. However, in the investment projects’ DOTS, only a few indicators track PSD and about 46 percent of projects sampled had no such indicator. In the sample, only 28 percent of evaluated projects had DOTS indicators that were directly relevant to the expected PSD outcomes such as demonstration effects or increased competition that are critical for IFC's development mandate. There is a need for systematic reflection of expected PSD effects of IFC investment interventions, including causal chains to link IFC’s activities to outcomes and indicators.

*All XPSRs should be delivered on time and their quality improved through better management oversight, guidance, and clearance, plus the involvement of senior investment officers in conducting XPSRs.* The quality of XPSRs has declined by three measures: (1) XPSR's rated as “good practice” dropped from 50 to 25 percent between 2007 and 2011; (2) in 2011, staff assigned higher self-ratings for development outcome and IFC work quality in 20 percent and 18 percent of XPSRs, respectively, as compared with independent assessments, and the gaps between the self and IEG ratings have been increasing in the last four years; (3) for the first time in 2010 IFC did not complete 6 XPSRs during the program year. Possible reasons are (1) less experienced junior staff drafting self-evaluations without sufficient oversight, (2) a larger XPSR program following IFC’s portfolio growth over the last five years, or (3) portfolio staff also working on new projects, which takes precedence. IEG recommends that management work to restore the quality of the XPSR program.

*IFC should conduct selective tests and reviews to validate information provided by clients.* For unaudited information, selective direct data verification is needed to enhance the credibility and reliability of data supplied by companies. Any assumptions and data limitations
or biases should be publicly disclosed. The external assurance provider’s mandate should be expanded to include assessment of the credibility and attribution of data—particularly related to IDGs—appropriate verification, and whether IFC is effectively disclosing data limitations or biases. DOTS indicators are based in part on data from audited financial reports, company annual reports, and other validated sources. However, other data are based on assumptions by client and IFC staff, and IFC does not have a process to verify data integrity other than through a desk review of information received. IFC has pioneered external assurance of its development results reporting. However, this review has been limited to a small portion of the information; only ex post micro, small, and medium enterprise loan data are externally assured—that is, only 1 of 15 measures of development reach by IFC investment clients. Moreover, similar to IFC’s internal CDI quality control, the assurance provider’s review does not include contacting clients, visiting projects, or communicating with field-based staff. Direct data verification for some data that are based on less credible sources would enhance the credibility and reliability of data supplied by companies and staff, and any assumptions and data limitations or biases should be publicly disclosed.

Furthermore, IEG has one recommendation to make the M&E information more valuable in investment decision making and learning:

Reinforce the culture of learning lessons from IFC’s previous investment projects during appraisal, design, structuring, and approval stages. Reintroducing the lessons section in appraisal documents may contribute to this. IEG recommends that the lessons learned from prior projects be used in project appraisal and structuring discussions. It would also be helpful to provide guidance for identifying lessons and reflecting lessons for meaningful discussion during the review stage. Many factors affect investment project outcomes, but evaluation results have shown that projects with poor outcomes are associated with poor up-front work quality, which includes ignoring lessons. The lessons serve as a basis for defining the areas of focus during appraisal. IFC had a section in its project documentation to list the salient lessons, but the section was recently dropped.

Two recommendations to improve quality of M&E system for Advisory Services follow:

Revise the standard indicators based on appropriate results chains or theory of change of business lines, strategies, and project objectives. Among PCRs completed in 2010, 90 percent fell short of using relevant standard indicators. Standard indicators in Advisory Services are not always adequate to track project results as per project objectives. In some cases, poor core indicators linked to poorly articulated objectives have led to weak impact measurement. Moreover, the increasing reliance on standard indicators that are only weakly related to project objectives could transform the self-evaluation process into a monitoring exercise focused on checking achievement of standard indicators rather than analyzing achievement of objectives and understanding the factors behind success or failure.

Address the issue of timing of IFC’s Advisory Services self-evaluation system to ensure projects are sufficiently mature to more meaningfully assess their development results. In doing so, IFC might either consider conducting self-evaluation two to three years post completion, possibly on a sample of projects as done for XPSRs, or launching a postcompletion system based on clear selection criteria for projects to be included.

IEG could not assign Development Effectiveness ratings to 18 percent of projects selected for evaluation, in most instances (65 percent of the cases) because projects had not achieved results at the time of IEG evaluation and, in 35 percent of instances, because of insufficient information and lack of credible evidence. Moreover, even among those projects for which IEG assigned Development Effectiveness ratings, 41 percent could not be rated at the impact level because impacts had not been achieved by evaluation/project closure or because there was insufficient information and evidence to assign a rating.

Given the limitations of the PCR instrument to adequately assess outcomes and impacts at project closure, IFC may not count on sufficient evidence to systematically evaluate completed advisory services projects and provide insights into the causal relationships between interventions and longer-term results. IFC has attempted to capture longer-term results through impact and other types of evaluations as well as through some ad hoc postcompletion monitoring efforts. However, this has not been done in a systematic way across IFC and is largely de-linked from IFC’s self-evaluation system. Since FY10, Advisory Services has revised its project objective-
setting approach to determine what is achievable within the project timeframe and budget, and stated that they are aiming to capture intermediate results of projects. This practice may be strengthened and supplemented by a systematic, sample-based postcompletion evaluation system, aimed at capturing impacts.

IEG has one recommendation to make the M&E information more valuable in Advisory Services decision making and learning:

*In the current process of revising PCR guidelines, IFC should include an assessment of IFC work quality in Advisory Services self-evaluations.* The PCR framework does not contain a direct assessment of IFC’s quality of work. The section of IFC’s role and contribution usually includes some aspects of self-evaluation of IFC’s role, but not systematically. Based on the experience from XPSRs (which includes this section), IFC would get greater learning benefits by explicitly evaluating the quality of its work—design and execution—and its relationship to other performance dimensions. IFC may consider introducing the work quality dimension in a revised version of the PCR guidelines. This would help align the evaluation frameworks for Investment Services and Advisory Services.

IEG has two recommendations to make the M&E information more valuable in decision making and learning at the corporate level:

*When IFC interventions involve combined Investment and Advisory Services, project M&E should more explicitly reflect results measurement of both advisory business lines and industries.* IFC is increasingly combining Investment and Advisory Services to achieve development goals. Some of the lessons in Investment projects could be relevant to Advisory Services and vice versa. Although there are some common elements in the respective results measurement frameworks, there are also asymmetries.

*IFC’s regional, country, industry sector, and Advisory Services business line strategies and initiatives should contain an explicit results matrix to assess strategic objectives, with relevant indicators to track progress and evaluate in a systematic manner, preferably embedded in periodic strategy updates.* IFC should pilot approaches to improve the measuring and reporting of key results on the areas of critical institutional objectives that go beyond project performance, such as private sector development and poverty reduction. Despite the growing importance of initiatives, strategies, and programmatic approaches, IFC has not systematically evaluated such strategic interventions. Most evaluations are conducted at the project level, which are not, by themselves, sufficient to measure strategic impact on sector efficiency, market functioning, competitiveness, or poverty reduction.

IEG has one recommendation to improve MIGA’s M&E system:

*MIGA should:

- Streamline the project-evaluation approach and process to align more closely with MIGA’s business model and conditions on data gathering.
- Reduce the cost burden on project evaluation, possibly by strengthening periodic collection of project data in line with industry practices.
- Increase coverage of evaluated projects in order to enhance the ability to derive meaningful results at the corporate level.*

MIGA has mainstreamed self-evaluation of its guarantees and has strengthened some aspects of its project monitoring. However, the coverage of MIGA projects through self-evaluation can be strengthened to enhance the ability to assess MIGA’s overall development performance. As a development institution, MIGA should be able to know the development effectiveness of its portfolio.
Management Response

I. Introduction

Management welcomes the Independent Evaluation Group’s (IEG) Biennial Report on Operations Evaluation (BROE), which assesses the monitoring and evaluation systems (M&E) of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). M&E plays an important role in understanding and enhancing our development impact, and we value IEG’s contribution in this regard. The report comes at an opportune time, given further enhancements in IFC’s M&E systems since the last BROE on IFC in 2008.

This note has a separate section for the IFC Management Response and for the MIGA Management Response. The specific IFC and MIGA response to the report’s recommendations are in the Management Action Record matrix.

II. IFC Management Response

We are pleased that the report recognizes that IFC continues to be in the lead on M&E among private sector–oriented development finance institutions (DFIs). This is welcome confirmation that IFC has its priorities right on M&E and that the enhancements in our frameworks and systems are best practice. We believe we have made significant progress in developing, aggregating, disclosing, and using development results to formulate strategy and improve operations.

Recent M&E Initiatives in IFC

IFC has allocated extensive resources in continuing to improve development results measurement, to achieve greater impact. Since the 2008 BROE, IFC has pioneered the use of quantitative thematic development targets to drive strategy and operations by piloting, testing, and implementing IFC Development Goals (IDGs); two IDGs became operational in FY13, and three more are scheduled to do the same in FY14.

Since the 2008 BROE, IFC has been implementing its new self-evaluation strategy to complement IEG’s independent evaluations, working with operational departments to learn from past performance to inform strategy and enhance future operations. We are pleased that IEG acknowledges IFC’s sectoral and thematic evaluations, which typically cover multiple regions and priority areas of our business. For example, in FY13 we completed a global evaluation covering select activities of the business regulation product in the investment climate business line, which included 59 projects across six regions; we also finished a housing finance evaluation that compared results across more and less-successful case studies in South Asia and Latin America.

In addition to evaluation, IFC conducts programmatic studies to develop new methodologies and inform our strategic approach on specific cross-cutting themes, including the IFC job study, the China review of finance-related IFC operations, the global demonstration effects study, and the global public private partnerships gender study. Moving forward, IFC will ensure that its annual self-evaluation and research work program continues to go beyond project-level performance and will explicitly track work dedicated to these activities to establish a baseline and track progress over time.

IFC has also played a leadership role in an initiative to harmonize private sector development impact indicators of various DFIs. IFC took the lead in convening DFIs on this issue, proposed hiring an external consulting firm that would benchmark all our standard investment services indicators and make best practice recommendations to participating DFIs by an established delivery date. The objective was to adopt a set of common core indicators, which would lower shared clients’ reporting costs and facilitate learning among DFIs. In 2012, more than 20 DFIs agreed to the proposal and together finalized terms of reference for a competitive selection of a consulting firm that is currently reviewing indicators and about to make recommendations to the group of participating DFIs.

IFC has also established a global Results Measurement Network of more than 60 staff who work full time on results measurement, as well as many of the part-time Development Outcome Tracking System (DOTS) champions. This has formalized the M&E career stream in IFC, with three important consequences: it is improving results frameworks at the operational level; it is fostering knowledge sharing of good practice among
There are several ongoing efforts that will further improve IFC’s M&E. As a follow-on to the recently completed jobs study, IFC is developing an implementation support plan, which should increase the job creation effects of our operational activities. IFC has recently undertaken a demonstration effects study, designed to help us better understand the factors associated with greater levels of demonstration effects, with the intention of feeding that learning back into strategy and project design. Finally, we have also initiated a study of projects considered as transformational; the objective is to identify characteristics of transformational projects from current work, so we can design those features into future projects and track progress.

Comments on the Report

IEG has downgraded “best practice” Expanded Project Supervision Reports (XPSRs) across the board. IEG’s individual Evaluation Notes (EvNotes) used to flag those XPSRs that contain superior evaluative documentation, analysis, and judgment as “best practice.” IFC has then used this “best practice” XPSR recognition as an input to some performance awards program. However, the BROE reclassified “best practice” to “good practice,” with the apparent implication that other XPSRs are not good. This has caused significant confusion. Going forward, IFC remains committed to delivering high-quality XPSRs, and we appreciate our partnership with IEG on this matter. We would like to work with IEG on a training program for investment officers on how to write high-quality XPSRs, including clarity on the way in which IEG decides whether an XPSR is good practice or not. We also look forward to a more timely completion IEG EvNotes; we have observed several instances where the lag time between the staff XPSR and the subsequent IEG EvNote has contributed to different ratings.

On Advisory Services, management notes that the report covered projects completed in the period FY08–10, which coincided with a period of significant internal consolidation and reform, as well as early effects of the global financial crisis. Since FY10, we have continued to introduce reforms to project design and project evaluations and to sharpen strategic focus. Project Completion Reports (PCRs) show that development effectiveness ratings have improved consistently over the past few years, reaching 72 percent in 2011.

Unlike the 2008 BROE, this report does not include IEG’s self-evaluation of its M&E framework. This is unfortunate, as IFC’s M&E systems are influenced and complemented by those of IEG. For example, the XPSR and the PCR systems were developed by IEG, and there are extensive interactions between IFC and IEG before an annual program is completed. IFC management believes that re-introducing IEG’s self-evaluation in future BROEs would permit a more complete discussion and potentially help improve the interrelated process between IFC and IEG.

Conclusion

Our differences on some areas of the BROE do not dilute the overall value of the report to management. IEG plays an important complementary role within IFC’s M&E system. The report is a good example of the substantial contribution IEG makes to enhancing IFC’s development impact.

III. MIGA Management Response

MIGA thanks IEG for this constructive and insightful evaluation. This report is very timely, as MIGA is mounting a concerted effort to move our M&E activities to the next level to strengthen the feedback loop to operational learning and project design. The report will be useful in a number of important respects including actions/progress made recently in starting up and mainstreaming MIGA’s self-evaluation program, scaling up environmental and social (E&S) monitoring, and implementing portfolio-wide development outcome tracking (Development Effectiveness Indicator System).

The report mentions up front that, given where MIGA stands in terms of developing its M&E system, it is “too early for a definitive evaluation.” Thus, the report’s conclusions and recommendations should be seen as preliminary and evolving over time.

The report accurately acknowledges the differences between IFC’s and MIGA’s business models and the challenges that MIGA inevitably faces in evaluating the projects for which it provides guarantees, given its arms-length relationship to the project enterprise. This is in distinct contrast to investors and lenders; for example, MIGA does not receive memberships on
project enterprise boards of directors, which would allow for enhanced dialogue and access. The report recognizes this reality and its overarching influence on M&E systems and procedures that MIGA uses.

In the context of MIGA’s business model, it would also be helpful to add that related to being at an “arms-length” distance from the project, MIGA has to be mindful of all transaction costs that are being imposed on a client. Client tolerances for the “hidden” costs of working with the World Bank Group are limited.

The report identifies relevant shortcomings in some MIGA processes, such as records management and E&S contract compliance follow-up. MIGA agrees with these findings and, as the report acknowledges, is actively working to address these.

MIGA’s evaluation program in its current form (that is, since FY10) has been carefully developed, and IEG has been heavily involved in numerous aspects of this program (for example, drafting comprehensive guidelines, sampling procedures, initial training, and validation protocols). IEG is also involved in the ongoing efforts to identify ways to streamline and otherwise reduce costs of conducting MIGA’s self-evaluations. The report should note IEG’s involvement in helping MIGA set up an M&E system, to underscore that what we have in place has drawn on independent input.

There are some findings in the report where MIGA either has a different view or believes further context setting is necessary. These include:

- The principal cost driver is not obtaining information from the client. Rather, it is obtaining and analyzing information beyond what the client can or should provide. For example, to carry out economic rate of return analysis, MIGA must collect data such as third-party stakeholder views and relevant economic parameters for comparisons (that is, for energy projects, the marginal electricity costs).

- The cost comparisons between MIGA and IFC are misleading, given that the two institutions are in different stages of their M&E capacity building.

- The report claims that the “small number of evaluations” is a constraint to learning from evaluations. Some clarification is warranted here. Starting from zero, MIGA has progressively scaled up delivery from three to five to seven evaluations per year since FY10. Seven evaluations done well, with in-depth site visits, intensive interaction with multiple stakeholders, led by front line staff, provides more effective “learning” than would 15–20 cursory exercises. The IEG-administered survey of MIGA staff for this report (in which 90 percent of front line staff participated) clearly bears this out.

- The report exhorts MIGA to seek cost-effective ways of reducing costs of evaluation in ways that are consistent with MIGA’s business model as a political risk insurance provider. MIGA unreservedly subscribes to this and has been making considerable efforts to do so. The report acknowledges that MIGA and IEG management constituted a joint working group to address this matter in the context of the Evaluation Cooperation Group’s Good Practice Standards for Evaluating Private Sector Projects, (4th version), which is to serve as a framework for the exercise.
1. Gaps in monitoring private sector development impacts in DOTS for investment projects.

Private sector development (PSD) such as improved competition, demonstration effects of a business model, or host country sectoral transformations is a rationale for many IFC investments. However, in the investment projects’ DOTS, only a few indicators track PSD, and about 46 percent of projects sampled had no such indicator. In the sample, only 28 percent of evaluated projects had DOTS indicators that were directly relevant to the expected PSD outcomes, such as demonstration effects or increased competition that are critical for IFC’s development mandate. There is a need for systematic reflection of expected PSD effects of IFC investment interventions, including causal chains to link IFC’s activities to outcomes and indicators.

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<tr>
<td>Gaps in monitoring PSD impacts</td>
<td>Where there are specific PSD objectives for investment projects, at least one relevant PSD indicator should be systematically tracked in DOTS.</td>
<td>Agree</td>
<td>PSD is the most challenging area for which to articulate outcomes. IFC is already making several efforts to improve the tracking and monitoring of PSD indicators, including: • Over the last six months, IFC undertook a demonstrations effect study—a study designed to help us better understand the factors associated with greater levels of demonstration effects—with the intention of feeding that learning back into strategy and project design. • IFC renewed efforts to harmonize indicators for investment projects with others DFI’s in FY12. This opportunity will allow us to identify and apply the best PSD indicators. • The Manufacturing, Agribusiness and Services Industry Group has revamped all mandatory indicators in FY12, including PSD indicators for each subsector. IFC agrees that a better articulated PSD impact is needed—for example, the channels by which the PSD outcomes transmit to recipients beyond IFC’s clients. Over FY14–15, IFC will work to clarify definitions and causal links for staff. We will also work with operational departments to map and increase the use of PSD indicators for projects with clear PSD objectives.</td>
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2. Declining quality of self-evaluation reporting (XPSR).

The quality of XPSRs has declined by three measures: (1) XPSRs rated as “good practice” dropped from 50 to 25 percent between 2007 and 2011; (2) in 2011, staff assigned higher self-ratings for development outcome and IFC work quality in 20 percent and 18 percent of XPSRs, respectively, compared with independent assessments, and the gaps between the self and IEG ratings have been increasing in the last four years; (3) for the first time in 2010 IFC did not complete six XPSRs during the program year. Possible reasons are (1) less experienced junior staff drafting self-evaluations without sufficient oversight, (2) a larger XPSR program following IFC’s portfolio growth over the last five years, and (3) portfolio staff also working on new projects, which takes precedence.

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<td>Declining quality of XPSR</td>
<td>All XPSRs should be delivered on time and their quality improved through better management oversight, guidance, and clearance, plus the involvement of senior investment officers in conducting XPSRs.</td>
<td>Agree</td>
<td>IEG’s relabeling of best practice XPSRs to good practice has caused confusion. There is no evidence to support the assertion that 25 percent of XPSRs being considered best practice (now relabeled as good practice) is not a good achievement. The widening gap between self and IEG ratings could be a result of tougher IEG ratings over these four years, rather than “softer” self-ratings. We agree that all XPSRs should be completed and delivered on time. We also look forward to a more timely completion of all IEG’s EvNotes. We agree that the likely causes of the ratings variance are (1) a larger XPSR program and (2) investment staff giving new project processing or immediate portfolio concerns precedence over XPSR completion. We propose that we work with IEG to limit the number of XPSRs per staff, without losing representativeness. This will have the added benefit of spreading the learning to more staff. In addition, we propose that we work with IEG on a training program for investment officers on how to write high-quality XPSRs, including clarity around the way in which IEG decides whether an XPSR is good practice or not.</td>
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All XPSRs should be delivered on time and their quality improved through better management oversight, guidance, and clearance, plus the involvement of senior investment officers in conducting XPSRs.
Enhancing the Credibility of DOTS indicators

IEG Recommendations
IFC should conduct selective tests and reviews to validate information provided by clients.

Management Response
For unvalidated information, selective data verification is needed to enhance the credibility and reliability of data supplied by companies.

Acceptance by Management
Agree on selective data validation

Disagree on expanding the external assurance provider’s mandate

The external assurance provider’s mandate should be expanded to include assessment of the credibility and attribution of results. Any assumptions and data limitations or biases should be publicly disclosed.

We disagree with the recommendation to expand the mandate of the external assurance provider to include direct assessment of the credibility and attribution of results. We see no evidence that it is necessary, and it would be more costly to clients. We already have stringent data quality controls in place at different levels of data scrutiny, including:
- Portfolio officers collect and enter data into DOTS and upload the sources of information in iDesk.
- DOTS champions and results measurement staff review data quality within a deadline given by CDI.
- CDI provides weekly updates of reach data quality focusing on year-on-year variations, large increases/decreases or no variations, big contributors, zero values, and accuracy of gender data component.
- CDI reviews DOTS ratings and indicators quality against IFC’s official guidelines as well as reach data quality.
- DOTS champions request portfolio officers to make any changes needed to reach data within 3 days, and any assumptions and data limitations or biases should be publicly disclosed.

In FY14, we implemented a similar verification process of a sample of Investment Services projects to assess any data quality issues on the investment side.

Over the last fiscal year, IFC has conducted a pilot verification of DOTS in the Africa Region. We will incorporate lessons learned from that experience. In FY14, we will implement a similar verification process of a sample of Investment Services projects to assess any data quality issues on the investment side.

As the BROE report pointed out, IFC is the leader among multilateral development banks with regard to tracking and monitoring development results. IFC has continued to refine our quality review process and further strengthen the results measurement network to improve staff understanding of development impact as well as the data quality.

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We do not consider it necessary or helpful to ask the assurance provider to undertake direct assessments of the quality of the data itself—in effect, this would be a third or fourth layer of checking—which would create unnecessary additional intrusion for IFC’s clients.

We are additionally undertaking pilot quality control tests in FY13 and FY14, and will then determine whether we need any additional support for the assurance provider. We do not consider it necessary or helpful to ask the assurance provider to undertake direct assessments of the quality of the data itself—in effect, this would be a third or fourth layer of checking—which would create unnecessary additional intrusion for IFC’s clients.

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<td><strong>4. Lessons from evaluation are critical.</strong> Many factors affect investment project outcomes, but evaluation results have shown that projects with poor outcomes are associated with poor up-front work quality, which includes ignoring lessons. The lessons serve as a basis for defining the areas of focus during appraisal. IFC had a section in its project documentation to list the salient lessons, but the section was recently dropped.</td>
<td>Reinforce the culture of learning lessons from IFC’s previous investment projects during appraisal, design, structuring, and approval stages. Reinroducing the lessons section in appraisal documents may contribute this. IEG recommends that the lessons learned from prior projects be used in project appraisal and structuring discussions. It would also be helpful to provide guidance for identifying lessons and reflecting lessons for meaningful discussion during the review stage.</td>
<td>Agree</td>
<td>We welcome this recommendation. Lessons from past operations have always been an important consideration in IFC’s project due diligence process. As part of the Business Process Improvement initiatives, IFC streamlined the information presented in Project Data Sheet-Concept documentation to increase the focus on project parameters such as IFC’s strategic context, additionality, development impact, and business case. This change in document format has not diminished the importance of lessons learned in informing project design. On the contrary, IFC has strengthened its team of industry specialists and introduced sector leaders in most transaction teams to further facilitate sharing of best practices and lessons learned. Sector leaders are seasoned investment staff who provide advice and share lessons of experience to transaction teams. Going forward, IFC will further promote the culture of learning by making lessons from different sources more accessible. For example, IFC is developing a knowledge strategy that is expected to enhance the creation, collection and sharing of lessons.</td>
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| **IFC Advisory Services** | Revise the standard indicators based on appropriate results chains or theory of change of business lines, strategies, and project objectives. | Agree | Many revisions and improvements to indicators have occurred since the cohort of projects examined by IEG in this BROE:  
- All Advisory Services business lines revised their M&E frameworks, including standard indicators, in FY10 and FY11.  
- Revised approach in FY10 to ensure teams were setting realistic project objectives.  
- Quality at Entry review was started across all projects from FY10 to ensure linkages with objectives and indicators.  
Recent years’ data shows improved use of standard indicators. A Working Group of Global Business Line Directors was established in 2012 to oversee a review of standard indicators. As part of this process, emphasis is being placed on aligning Advisory and Investment Services metrics wherever possible. This will take into account the results of the indicator harmonization exercise with other DFIs. |

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**5. Need to revisit standard indicators.** Among PCRs completed in 2010, 90 percent fell short of using relevant standard indicators. Standard indicators in Advisory Services are not always adequate to track project results as per project objectives. In some cases, poor core indicators linked to poorly articulated objectives have led to weak impact measurement. Moreover, the increasing reliance on standard indicators that are only weakly related to project objectives could transform the self-evaluation process into a monitoring exercise focused on checking achievement of standard indicators rather than analyzing achievement of objectives and understanding the factors behind success or failure. | | | |
6. Capturing Advisory Services projects’ outcomes and impacts.

IEG could not assign development effectiveness ratings to 18 percent of projects selected for evaluation, in most instances (65 percent of the cases) because projects had not achieved results at the time of IEG evaluation and, in 35 percent of instances, because of insufficient information and lack of credible evidence. Moreover, even among those projects for which IEG assigned development effectiveness ratings, 41 percent could not be rated at the impact level because impacts had not been achieved by evaluation/project closure or because there was insufficient information and evidence to assign a rating. Given the limitations of the PCR instrument to adequately assess outcomes and impacts at project closure, IFC may not count on sufficient evidence to systematically evaluate completed advisory services projects, and provide insights into the causal relationships between interventions and longer term results. IFC has attempted to capture longer-term results through impact and other types of evaluations as well as through some ad hoc postcompletion monitoring efforts. However, this has not been done in a systematic way across IFC and is largely de-linked from IFC’s self-evaluation system. Since FY10, Advisory Services has revised its project objective-setting approach to determine what is achievable within the project timeframe and budget and stated that they are aiming to capture intermediate results of projects. This practice may be strengthened and supplemented by a systematic, sample-based postcompletion evaluation system aimed at capturing impacts.

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<td>6. Capturing Advisory Services projects’ outcomes and impacts.</td>
<td>Address the issue of timing of IFC’s Advisory Services self-evaluation system to ensure projects are sufficiently mature to assess more meaningfully their development results. In doing so, IFC might either consider conducting self-evaluation two to three years postcompletion, possibly on a sample of projects, as is done for XPSRs, or launching a post-completion system based on clear selection criteria for projects to be included.</td>
<td>Agree</td>
<td>Amongst the many improvements to results measurement for Advisory Services activities in recent years, reforms have included measures to ensure project objectives are realistic, and at least the intermediate impacts of the projects are assessed. In tandem, management has been reviewing the array of tools it has to ensure rigorous and cost-effective evaluation of longer-term results and impacts. This includes the new IFC evaluation strategy and work toward an appropriate Advisory Services postcompletion monitoring system, which we expect to roll-out by the end of CY13.</td>
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<td><strong>7. Work Quality assessment in Advisory Services project evaluation.</strong>&lt;br&gt;The PCR framework does not contain a direct assessment of IFC’s quality of work. The section of IFC’s role and contribution usually includes some aspects of self-evaluation of IFC’s role but not systematically. Based on the experience from XPSRs (which includes this section), IFC would get greater learning benefits by explicitly evaluating the quality of its work—design and execution—and its relationship to other performance dimensions. IFC may consider introducing the work quality dimension in a revised version of the PCR Guidelines. This would help align the evaluation frameworks for Investment Services and Advisory Services.</td>
<td>In the current process of revising PCR guidelines, IFC should include an assessment of IFC work quality in Advisory Services self-evaluations.</td>
<td>Agree</td>
<td>As part of the current IFC-IEG review of PCR guidelines, management will consider alternative approaches to assessing work quality in advisory services projects. Subject to management and IEG agreement, the PCR guidelines should be revised by the end of CY13.</td>
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<td><strong>8. Alignment between investment and advisory services results measurement framework.</strong>&lt;br&gt;IFC is increasingly combining Investment and Advisory Services to achieve development goals. Some of the lessons in investment projects could be relevant to Advisory Services and vice versa. Although there are some common elements in the respective results measurement frameworks, there are also asymmetries.</td>
<td>When IFC interventions involve combined Investment and Advisory Services, project M&amp;E should more explicitly reflect results measurement of both business lines and industries.</td>
<td>Agree</td>
<td>IFC is working toward more Advisory Services and Investment Services alignment in the following dimensions:&lt;br&gt;• IDGs—Harmonization of indicators has already taken place for some IDGs: micro-, medium, and small enterprise access to finance, GHGs, and infrastructure access. In addition, many joint Advisory Services-Investment Services projects have common indicators.&lt;br&gt;• Harmonization—We have a sequenced plan for indicator harmonization. This starts with recommendations for Investment Services indicator harmonization with other DFIs; these recommendations will then feed into a plan to harmonize a subset of Investment and Advisory Services indicators that would be tested in FY14 and used for joint investment and advisory projects by FY15. This work will also feed into the World Bank Group Change Team working on harmonizing results frameworks across the World Bank Group.&lt;br&gt;• Evaluation—We have increased the number of joint Advisory Services-Investment Services evaluations of projects and programs. Recent examples include Progresemos (completed), China Review (completed), Health in Africa (completed), Performance-Based Grant Initiative (ongoing), Sustainable Energy Finance Global Review (planned), and Education for Employment (planned).</td>
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| **9. Evaluation of IFC initiatives, strategies, and programmatic approaches.**  
Despite the growing importance of initiatives, strategies, and programmatic approaches, IFC has not systematically evaluated such strategic interventions. Most evaluations are conducted at the project level, which are not, by themselves, sufficient to measure strategic impact on sector efficiency, market functioning, competitiveness, or poverty reduction. | IFC's regional, country, industry sector, and Advisory Services business line strategies and initiatives should contain an explicit results matrix to assess strategic objectives, with relevant indicators to track progress and evaluate in a systematic manner, preferably embedded in periodic strategy updates.  
IFC should pilot approaches to improve the measuring and reporting of key results on the areas of critical institutional objectives that go beyond project performance, such as private sector development and poverty reduction. | Agree | IFC already tracks the results of its geographic, industry, and thematic strategies at two levels: (1) the IFC corporate level and (2) the World Bank Group level. Going forward, IFC will pilot more systematic approaches to results measurement for internal IFC strategy updates/reviews.  
**At the corporate level:** IFC outlines its corporate strategy in the annual Road Map Paper, covering a three-year rolling period. This is a synthesis of regional, country, industry, and thematic approaches and their contributions to both IFC strategic priorities and corporate goals. It includes a Corporate Scorecard that tracks IFC's performance in each strategic focus area and corporate goal. IFC’s regional, country, industry, and thematic objectives are therefore already tracked at the corporate level.  
IFC also undertakes on an as-needed basis an internal review/update of its strategic approaches in specific themes or geographical areas. IFC will pilot the establishment of results measurement frameworks in select internal strategy reviews/updates. These pilots will use existing IFC indicators and will consider any additional indicators that may be needed for corporate-wide or Bank Group-wide initiatives. We will refine our approach as we learn from experience.  
**At the World Bank Group level:** IFC participates in the formulation of formal Bank Group-wide strategies at all levels, including the results measurement frameworks for such strategies. We believe that this is an effective and efficient way of tracking IFC’s formal geographic or thematic strategies. |}

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| **10. Remaining gaps in MIGA’s self-evaluation.**  
MIGA has mainstreamed self-evaluation of its guarantees and has strengthened some aspects of its project monitoring. However, the coverage of MIGA projects through self-evaluation can be strengthened to enhance the ability to assess MIGA's overall development performance. As a development institution, MIGA should be able to know the development effectiveness of its portfolio. | Streamline the project-evaluation approach and process to align more closely with MIGA’s business model and conditions on data gathering.  
Reduce the cost burden on project evaluation, possibly by strengthening periodic collection of project data in line with industry practices.  
Increase coverage of evaluated projects in order to enhance the ability to derive meaningful results at the corporate level. | Agree | MIGA shares the conviction that self-evaluations should be simplified and better adapted to MIGA’s business model and has worked closely with IEG to identify a way to do so. Creating an evaluation approach that is appropriate to MIGA’s involvement in its projects makes eminent sense. There is a MIGA-IEG working group in place that is endeavoring to simplify procedures along these lines. The work is ongoing. In terms of reducing costs, unit costs per evaluation have come down in recent years, primarily as efficiencies have increased with experience. The major changes in the cost structure, however, will be achieved with meaningful streamlining. With respect to assessing corporate-level results, MIGA’s Development Effectiveness Indicator System is now in its third year and will play the important role of collecting ex post impact data on all MIGA’s outstanding guarantees, thereby allowing for a portfolio level assessment of results. |
Chairperson’s Summary: Committee on Development Effectiveness


Summary

The Committee commended IEG’s evaluation and congratulated the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) for significant recent progress in their monitoring and evaluation (M&E) systems, yet emphasized that there is still more to be done. They thanked the External Expert Panel for its assessment of the evaluation, noting agreement in particular with the importance of learning to inform the design of projects and advisory services.

The Committee agreed that the evaluation’s findings identify areas to further improve IFC’s and MIGA’s M&E systems to make them more robust and stronger in providing evidence-based data. The Committee concurred with the majority of the evaluation’s recommendations, with one exception pertaining to the method IFC should use to undertake additional quality checks to validate client information, in particular for IFC investment projects. In this regard, members concurred with the steps proposed by IFC to pilot additional tests internally and to consider having the assurance provider review such tests at the completion of the pilot. In addition, members indicated the need for better articulation of additionality in project Board documents, the importance of incorporating lessons learned into project/investment design, and the need to balance coverage and costs of M&E systems. They suggested exploiting synergies between MIGA and IFC, including joint self-evaluations, and stressed the importance of enhancing data quality to ensure robust self-evaluations.
Overall, the panel found the report to be of high quality. It provides timely and useful information to the managements of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) and to the Committee on Development Effectiveness. The report was comprehensive, well structured, well written, and balanced in terms of identifying both strengths and weaknesses and pointing out the progress that has been made over time and areas where further improvements are needed. The report posed appropriate evaluation questions that were well defined, presented the necessary evaluation evidence, and analyzed the information in a sound manner. The recommendations were clear and were supported by the analysis and evidence presented.

The panel believes that it is useful to have periodic independent reviews of monitoring and evaluation (M&E) systems to see what is working well, where there are gaps in coverage or weaknesses that need to be addressed, and how—or if—the M&E information is actually used in decision making. To the panel’s knowledge, the Independent Evaluation Group (IEG) is the only evaluation department among the multilateral development banks (MDBs) that regularly assesses M&E systems. Past editions of the Biennial Report on Operations Evaluation (BROE) have contributed to the improvement of IFC’s and MIGA’s self-evaluation systems. In effect, IEG, IFC, and MIGA have collaborated over many years to develop and improve the organizations’ M&E systems. Given the influence of past BROEs, the panel believes that it is a best practice example that should be emulated by other members of the Evaluation Cooperation Group. The boards of MDBs should require independent confirmation that management has developed suitable M&E systems and uses the resulting information in their decision making.

The panel confirms the BROE’s main findings that IFC has a sound M&E system for both projects and advisory services, the best for private sector operations among the MDBs. The system that has been set up by IFC management for monitoring and self-evaluation of its activities, which MIGA management is gradually trying to mirror, is impressive. The Development Outcome Tracking System, which measures development effectiveness, is now woven into the fabric of IFC, as demonstrated by the quality of its outputs and the increased use of the M&E findings in the preparation of new projects and advisory services, and in formulating strategies. The panel notes that all MDBs are struggling with evaluating the outcomes and impacts of advisory services. Given the cost implications, at best a sample of advisory services can be assessed at this level.

Convincing evidence is provided in the report to demonstrate that IFC and MIGA are improving their M&E systems. The BROE makes a compelling case that the information generated by a good M&E system can be used to support decision making in a manner that helps identify and correct problems, promotes learning, and leads to achieving better development results.

The panel’s positive view of the IFC M&E system is based on its design as a project company/client-centered system, despite some problems of relevance, timeliness, and data credibility that are documented in the report. IFC’s M&E system generated evidence-based decision making and learning about risk and financial returns and social and environmental impacts. With few exceptions, the raw data in the M&E system are generated by IFC staff or by project companies, rather than from independent sources. This approach fits well with the perspective of a financier who wants to know whether a project is profitable and whether it meets defined environmental and social standards. Questions have been rightly asked in the BROE about the quality of the information that is provided by the project companies to the IFC and about the application of the verification mechanisms to secure data integrity. When dealing with the private sector and conducting self-evaluation, independent scrutiny of projects in the field is essential, as deficiencies in the project due diligence and structuring can often be better spotted during field visits.

To make investment decisions depend more on key development goals, IFC started its IFC Development Goals (IDG) system. It developed reach indicators to measure the wider impact of IFC investment and advisory projects. The report recognizes the associated
challenges and warns that one needs to use the reach indicators in a balanced way. The M&E system does not focus on impacts on the final beneficiaries or generate and capture sufficient information about development-related impacts from primary sources. Meaningfully assessing the impact of a project on beneficiaries requires on-site data gathering. The stakeholder framework in Figure A.1 is sound and provides an excellent foundation for assessing development impact. It identifies a broad range of stakeholders beyond the project company—neighborhood/environment, government/taxpayers, customers, producers of complimentary goods, competitors, suppliers, and employees. Although some of these groups are covered in the environment and social reports required by IFC, the BROE notes gaps and weaknesses in the data not obtained from verifiable sources for reach indicators, private sector development indicators, additionality, and development impact indicators.

The lack of information in the M&E system collected directly from a broader range of stakeholders may result in some “good news” stories not being reported or in obscuring some areas where remedial action is necessary. IFC and MIGA would enhance the credibility of their M&E systems if they used available and emerging information and communications technologies to gather first-hand (and timely) information from stakeholders other than IFC staff and project companies. The panel is mindful of the costs associated with primary data collection and believes that initially a highly selective approach should be used, focusing on projects that are likely to be controversial or to impact the lives of large numbers of people. With the advances in information and communications technology and social media, and the presence in many countries of active civil societies and third-party companies/institutions that have undertaken surveys, the cost of collecting and analyzing such primary data is decreasing to manageable levels. Several official and private aid organizations are using such feedback systems in guiding their strategies and policies (see Center for Global Development: http://blogs.cgdev.org/globaldevelopment/2013/01/make-a-consumer-reports-for-aid.php).

The panel reviewed the BROE’s recommendations and supports them. The managements of IFC and MIGA, with one minor exception, endorsed the recommendations and outlined the steps that would be taken to address them. Management agreed that “IFC should conduct selective tests and reviews to validate information provided by clients” but disagreed that “the external assurance provider’s mandate should be expanded to include assessment of the credibility and attribution of data—particularly related to IDGs—appropriate verification, and whether IFC is effectively disclosing data limitations or biases.” The panel believes that the steps proposed by IFC management in this area are sound.

Based on its deliberations, the panel highlights several points made in the report that it feels are particularly important from a strategic perspective:

- **The importance of learning**: All MDBs are trying to become learning organizations and incorporate learning from past experience in the design of future operations, advisory services, strategies, and policies. This is proving to be a significant challenge. Compared with other MDBs, IFC is doing relatively well in this area, although there is clearly room for improvement. Senior management and the Board must constantly reinforce the culture of learning lessons from IFC’s previous investment projects and advisory services during the appraisal, design, structuring, and approval stages. In the panel’s review, the removal of the lessons section from the Project Data Sheet concept is a serious threat to the IFC as a learning institution. Reports that go to the Board for approval should have a section on lessons learned and an explanation of how the major lessons were used. If lessons were embedded in the approval process in a natural way, management would not see gathering lessons as an administrative burden.

- **Strengthening the M&E system for financial intermediation, global trade facility, and corporate-level transactions**: The IFC M&E system has its roots in traditional project lending and investment. The financial intermediary sector accounts for more than 50 percent of IFC investments. This type of intervention requires extra efforts to secure mandate compliance. As highlighted in the BROE, the Development Outcome Tracking System is not used for the short-term finance projects in the financial intermediary sector, in particular for the global trade finance facility. Corporate-level transactions are another type of intervention that is not well covered by the M&E system. Going forward, the M&E system needs to be fine-tuned to reflect the changes in the
nature of IFC’s portfolio. IEG has some evaluations in its pipeline that may provide some evidence that can help in addressing these issues.

• **Strengthening the coverage of higher-order projects in the self-evaluation system:** Some of the most influential evaluations undertaken in other MDBs were evaluations of higher-level products like strategies and policies. Cluster/sector reviews of all the major sectors in which IFC is working are essential for generating lessons that feed directly into, and help inform, new strategies and policies. Indeed, IEG is mandated to evaluate policies and strategies before they are revised. The IFC M&E system should be strengthened and broadened from its traditional project roots to cover some higher-order products. Ideally, a self-evaluation of those products should precede IEG’s independent evaluations. In this context the panel welcomes the report’s recommendation that “IFC’s regional, country, industry sector, and Advisory Services business line strategies and initiatives should contain an explicit results matrix to assess strategic objectives, with relevant indicators to track progress and evaluate in a systematic manner, preferable embedded in periodic strategy updates.” While IFC’s M&E system is strong at the project level, the suggestion to include results-based matrices in other documents and to track the indicators would help IFC take the next step to broaden and strengthen the coverage of its M&E systems for these other products.

• **Assessing the quality of IFC’s work for Advisory Services:** The report presents strong evidence that IFC’s work quality, during both the preparation and supervisory phases, affects the results achieved by IFC-financed projects. In the panel’s opinion, that analysis underlines the importance of the recommendation that “in the current process of revising [Project Completion Report] guidelines, IFC should include an assessment of IFC work quality in Advisory Services self-evaluations.”

• **The importance of IFC’s role and additionality:** The report rightly notes the distinction between development impact and IFC’s role or additionality. Appendix A calls for an assessment of IFC’s role and contribution. Because IFC should not proceed with a project in the absence of a clearly defined role/additionality, role/additionality should be a self-standing criterion and not be averaged with other indicators. A clear definition of additionality is crucial because the definition of additionality determines the choice/construction of the counterfactual needed to assess whether additionality has been delivered.

• **Need for sustained effort and senior management attention to bring MIGA’s M&E system up to the desirable level:** The panel agrees with the report’s conclusion that MIGA has made significant progress during the last three years in implementing a functional M&E system. MIGA is improving its self-evaluation system and has recently formulated its own development goals-oriented system. Although it supports the report’s recommendations related to MIGA’s M&E system, the panel notes that the system is a work in progress. Sustained work and senior management attention will be needed over a period of several years to bring MIGA’s system up to the desired levels, and that is consistent with the needs of an insurance underwriter.

The panel highlights one methodological/presentational issue that needs to be addressed during the preparation of future reports. Evidence from the surveys of various types of M&E users was discussed throughout the report. However, the response rates were low, ranging between 13 percent and 34 percent, and there were a limited number of responses in some categories. The panel estimated that, at the 95 percent confidence level, the sample error would be in the 5 percent to 10 percent range, depending on the response rate and distribution of responses, for the Investment and Advisory Services staff—more than 100 replies were received for each. However, for the MIGA staff involved in self-evaluation and the environmental and social staff, for which 13 and 20 responses, respectively, were received, the sample error could range between 11 percent and 22 percent.

Despite the fact that Appendix C states that the evaluation team undertook some consistency analysis of the survey results, the panel believes that good practice requires that readers be made explicitly aware of the level of statistical uncertainty associated with the survey results by disclosing it in the Limitations section. In the text IEG should suitably caveat the use of these data. For example, statements like “70 percent of staff members found...” are only appropriate if clear statistical evidence is presented that the survey respondents are representative of the survey population. The 20/30
percent of the staff members who responded to the survey had a motivation to do so. The nonresponding 70/80 percent did not share this motivation. The two groups may differ, which should be noted in the footnotes wherever the staff survey results are cited. Although the panel supports undertaking surveys of M&E users, IEG in collaboration with management must find ways to improve the response rates for its surveys.

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Contents of the Full Evaluation

ABBREVIATIONS

ACKNOWLEDGMENTS

OVERVIEW

MANAGEMENT RESPONSE

CHAIRPERSON’S SUMMARY: COMMITTEE ON DEVELOPMENT EFFECTIVENESS

STATEMENT BY THE EXTERNAL EXPERT PANEL

1. CONTEXT AND EVALUATION FRAMEWORK
   M&E Systems for Development Results in IFC and MIGA

2. MONITORING AND EVALUATION IN IFC AND MIGA
   Monitoring and Evaluation for IFC Investment Operations
   Self-Evaluation of IFC Investments
   Monitoring and Evaluation for IFC Advisory Services
   Thematic Evaluations at IFC
   IFC’s Evaluation Strategy
   Corporate Monitoring and Evaluation
   Monitoring and Evaluation in MIGA

3. USE AND INFLUENCE OF MONITORING AND EVALUATION IN IFC AND MIGA
   Use of Monitoring and Evaluation in IFC Projects
   Integrating Development Results into Staff Incentive Structures in IFC
   Use of Monitoring and Evaluation in MIGA Guarantee Projects and Strategy

4. EFFECTIVENESS AND EFFICIENCY OF MONITORING AND EVALUATION SYSTEMS
   Effectiveness of Monitoring and Evaluation Systems in IFC and MIGA
   Cost and Reach of Monitoring and Evaluation Systems

5. MAIN FINDINGS AND RECOMMENDATIONS

APPENDICES
   A: Results Frameworks for IFC and MIGA Interventions
   B: IEG Criteria for Assessing the M&E Quality for Advisory Services
   C: Electronic Survey of IFC and MIGA Staff
   D: IFC Work Quality Assessment for Advisory Services Projects

ENDNOTES

BIBLIOGRAPHY
BOXES
Box 1.1. IFC and MIGA’s Past Management Actions against IEG Recommendations
Box 2.1. Coverage of Annual Report External Assurance: Details
Box 2.2. Evaluation Cooperation Group Benchmarking of IFC’s and MIGA’s Evaluation Systems
Box 3.1. XPSR Lessons
Box 3.2. Incorporating Lessons in Agribusiness Projects
Box 3.3. Lessons from a Cluster Review of Extractive Industries Projects
Box 3.4. Integrated Approach to Microfinance in Afghanistan

FIGURES
Figure 1.1. Results Chain of M&E
Figure 2.1. Percentage of XPSRs Judged by IEG to Be “Good Practice”
Figure 2.2. Development Outcome Success Rates and Differences between XPSR Self-Evaluation and IEG Rating
Figure 2.3. Work Quality Success Rates and Differences between XPSR Self-Evaluation and IEG Rating
Figure 2.4. M&E Quality at Entry, 2008–10
Figure 2.5. Project Supervision Documents Quality
Figure 2.6. PCR Information Quality
Figure 2.7. Adequacy of Information to Justify Ratings
Figure 2.8. PCR Self-Rating, CDI and IEG Ratings (development effectiveness ratings) for Subset of Projects Having Three Different Rating Sources (PCR self ratings, CDI and IEG) on Binary Basis
Figure 3.1. Trends in IFC’s E&S appraisal work quality evaluated 2004–11
Figure 3.2. Trends in IFC’s E&S supervision work quality evaluated 2004–11
Figure 4.1. Distribution of Equity Return by Screening, Appraisal and Structuring Work Quality from XPSR

TABLES
Table 1.1. Evolution of Private Sector Monitoring and Evaluation, 1995–2012
Table 1.2. Self-Monitoring and Evaluation Systems of IFC and MIGA
Table 1.3. Methodologies to Evaluate IFC and MIGA’s M&E Systems
Table 2.1. Flags Used in DOTS Quality Control
Table 2.2. DOTS, XPSR and IEG Development Outcome Ratings on Binary Basis
Table 3.1. Unidentified Lessons in Unsuccessful Projects
Table 3.2. Gaps and Targets at Bottom of the Pyramid in Latin America and the Caribbean
Table 3.3. Reach or Outcome Indicators in Regional Strategies
Table 4.1. Regression Results for Determinants of Development Outcome Success of IFC Investment Projects
Table 4.2. Regression Results for Determinants of Development Effectiveness Success of IFC Advisory Service Projects
Table 4.3. Estimated Cost of M&E Systems in IFC and MIGA
Table 4.4. Uses of M&E Instruments
Table 4.5. Influence of M&E Information
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Biennial Report on Operations Evaluation

—Overview—