The International Finance Corporation's Approach to Engaging Clients for Increased Development Impact

AN INDEPENDENT EVALUATION

IEG Independent Evaluation Group | WORLD BANK GROUP World Bank • IFC • MIGA

WHAT WORKS

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An Independent Evaluation

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Abbreviations

AKFED	Aga Khan Fund for Economic Development
AS	Advisory Services
CPF	Country Partnership Framework
E&S	environmental and social
FCS	fragile and conflict-affected situations
FIG	financial institutions group
FY	fiscal year
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
MIGA	Multilateral Investment Guarantee Agency
MSME	micro, small, and medium enterprises
PPP	public-private partnership
SCD	Systematic Country Diagnostic
SMEs	small and medium enterprises

Acknowledgments

This evaluation was prepared by a team of the Independent Evaluation Group (IEG) led by Hiroyuki Hatashima and Stephan Wegner. It was carried out under the direction of Caroline Heider (director-general, Evaluation) and José Carbajo Martínez with guidance from Stoyan Tenev. Andrew Stone advised the team.

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Overview

Highlights

- The International Finance Corporation (IFC) became more client focused over the past decade, although it implemented only partially its strategic approach to client engagement. IFC tends to engage in repeat operations with its more sophisticated clients.
- IFC's implementation of the strategic approach, though limited, has been associated with positive effects on IFC's behavior and performance, suggesting that a fuller implementation could yield stronger results. Investments by strategic clients perform better than IFC's average in terms of development outcome ratings, both overall and in IFC's strategic priority areas.
- Key objectives of IFC's strategic client engagement have not been achieved, as shown by the lack of sustained increase in good quality business, of significant gains in IFC's business efficiency, and of client satisfaction, and a limited ability to influence clients' capacities and development orientation. A selection effect due to characteristics inherent in strategic clients — rather than learning from repeat projects – explains the difference in development outcomes between repeat and one-off clients.
- IFC's client engagement approach can be viewed as a relevant and timely adaptation to a changing world with multiple players in the private sector development space, more financing and advisory options available to private companies looking to invest in developing countries, and a more confident domestic private sector in emerging and even frontier economies.
- Programmatic and country-based, client-focused initiatives aiming to move IFC farther upstream from its traditional engagement at the financial structuring stage (called IFC 3.0)—when projects have been largely developed—have had mixed results and have not been mainstreamed, indicating the challenges IFC 3.0 faces. However, such activities can support the ambitious global sustainable development goals and the expectations for an enhanced role for the private sector in achieving them.
- The strengthening and more systematic implementation of a strategic approach to client engagement, fully integrated with market and country-focused upstream interventions, appears to offer good potential for supporting IFC's strategic priorities and increasing its development impact.

The mandate of the International Finance Corporation (IFC) is to promote economic development by supporting the growth of productive private enterprise in its developing member countries, particularly in less developed and higher-risk areas, in partnership with private sector clients. Client engagement is thus a means to an end—to promote economic development.

IFC introduced client engagement as a strategic priority in the early 2000s. This was a relevant and timely response to competitive pressures from new players in the private sector development space, more financing and advisory options available to private investors in developing countries, and more confident developing country enterprises.

The overarching objective for this shift was to use strategically selected new and existing clients as effective vehicles for catalyzing private investments, increasing IFC's developmental impact, and improving business efficiency.

This evaluation assesses how strategic and effective IFC has been in its approaches to client engagement. Coming more than a decade after the IFC's strategic approach began, it reviews the extent to which IFC's approach has been implemented, has enhanced the clients' project outcomes, and has helped IFC improve its own development outcomes and effects.

The evaluation examines three modalities of IFC's engagement with clients: (i) client-focused partnerships; (ii) programmatic interventions to support upstream market expansion and creation activities; and (iii) country-focused interventions. It is based on a comprehensive assessment of IFC's investment and advisory portfolio—covering fiscal years (FY)04–16—and in-depth case studies of the three modalities.

Implementation of the Approach to Strategic Client Engagement

The proposed architecture of IFC's evolving approach to strategic client engagement has been comprehensive and relevant to supporting the overarching objective of increasing its development impact. The planning and development of the client engagement model appropriately considered the trade-offs between the costs of transition and implementation—including investments in infrastructure, knowledge, and human resources—and the expected benefits in terms of improved client service, business growth, increased efficiency and profitability of operations, and greater development impact.

However, IFC only partially and unevenly implemented its approach to strategic client engagement—launched in 2004 and refined afterward—across key dimensions. IFC has employed different client relationship arrangements without a clear and systematic segmentation based on agreed strategic priorities.

Furthermore, IFC has not implemented clear criteria for the selection and segmentation of strategic clients in line with its business priorities. In the absence of a widely-accepted definition of strategic client, this evaluation uses three categories of to identify de facto strategic clients: (i) repeat client groups; (ii) client groups identified by IFC as potential long-term partners; and (iii) client groups covered by client service leaders since 2014. For the remainder of this overview, unless otherwise stated, *strategic clients* refer to the first two categories of clients.

IFC tends to engage in frequent operations with the three categories of strategic clients. Usually, they are more sophisticated companies investing in marginally higher-risk countries.

Little evidence indicates, however, that such strategic clients received different treatment from IFC—compared with one-off clients—in terms of the types of instruments deployed, pricing, monitoring of effects, and client aftercare. Rather, IFC's due diligence and pricing are largely based on the nature of the individual projects and the country, and their alignment with IFC's strategic priorities.

In the context of its client engagement approach, IFC did not adapt accountabilities, incentives, or its internal culture to complement the shift toward a strategic client model and engagement in upstream initiatives.

IFC comparator institutions have implemented client engagement approaches to differing degrees, involving greater segmentation across tiers of clients with more varied treatment of strategic clients in terms of access to senior staff, resources, and product offerings. Practices in commercial banks reflect substantial differentiation among clients and flexibility in products and conditions. However, commercial banking client relationships often involve a greater range of services and products than those provided by IFC or other international finance institutions, in line with their development mandates.

Although IFC has used a mix of approaches, those related to upstream, programmatic engagements—through which IFC can directly link clients with development needs and priorities—have received little systematic attention.

Effects of Strategic Client Engagement on Clients and IFC

Since the adoption of the strategic approach to client engagement, IFC has become a more client-focused institution. IFC's engagement with strategic clients has been associated with positive effects on IFC's behavioral outcomes and performance. IFC has gained a deeper understanding of client objectives and needs, and improved its access to key decision makers. Clients appear to appreciate the appointment of client service leaders since FY15 appears to be appreciated by clients as a step in the right direction for having a consistent point of contact and interlocutor in IFC. Clients also noted, however, the limited scope of accountabilities of the client leaders and the importance of the right fit in terms of seniority and relationship skills.

IFC's work quality with strategic clients has been better than IFC's average work quality. IFC also helped strategic clients increase access to new markets.

IFC's engagement with strategic clients is associated with better development results compared with those of one-off clients. The evidence shows that long-term strategic partnerships with private sector clients can contribute to achieving better outcomes in priority areas such as International Development Association (IDA) countries and fragile and conflict-affected states (FCS). Strategic clients' projects tend to perform better in higher-risk country contexts compared with the projects of one-off clients. This performance pattern holds true for business performance, economic sustainability, and private sector development impacts. However, the environmental and social effects performance of strategic clients is the same as that of one-off clients.

This performance pattern mainly reflects a selection effect rather than a learning through repeat projects effect. Empirically, a self-reinforcing selection effect is observed, through which client quality and strategic fit enable success that leads to a deepening of the relationship and its transformation over time into a de facto strategic engagement.

IFC's ability to influence client capacities and strategic orientation for greater development focus has remained somewhat limited. The Independent Evaluation Group (IEG) found little or no effect on the client's environmental and social capacity beyond individual projects. Although IFC had a positive effect on strategic clients' access to new markets and sectors, in most cases, the client was already preparing to enter the new area and typically approached IFC as the lender of last resort and provider of comfort to key stakeholders.

There is little evidence about IFC's ability to influence the clients' poverty focus and base-of-the-pyramid orientation. Rather, this becomes effective mainly through its support to social enterprises that already have such a focus, its support for clients' expansion into previously unattended or underserved, often rural, areas where they can be inferred to have reached poorer populations, especially in IDA countries, and its support for clients' corporate social responsibility programs.

Some evaluation evidence points toward IFC's improved understanding of the client's development impacts, but this does not appear to be systematic across all strategic clients.

Key objectives of IFC's strategic client engagement remain unachieved: Quality business volume has not increased. Although the investment volume in strategic priority areas—IDA, FCS, infrastructure, and others—grew over the past decade, the growth was not driven by strategic clients. With strategic clients, efficiency showed modest gains, as measured by average processing days for investments, mostly for financial markets projects. Client satisfaction has not seen significant gains. Finally, IFC's ability to influence client capacities and development orientation appears somewhat limited.

Thus, the goal of transforming IFC from a transaction-focused to a client-centered institution has been only partially achieved.

Enablers and Constraints in Strategic Client Engagements

The evaluation finds that client characteristics, supported by IFC's financial and nonfinancial additionality, have been the key factors associated with the superior performance experienced by IFC's engagements with strategic clients. Thus, IEG observes that strategic clients are on average more sophisticated companies in terms of the quality of their corporate governance and financial strength (that is, a selection effect). Strategic engagements tend to evolve organically from project interactions, with IFC pursuing repeat engagements with relatively stronger clients with a track record of implementing projects competently and successfully. This selection effect appears to be a main driver of successful project outcomes. Stronger client capacity may also mitigate the effects of country risks.

The effects of other elements of IFC's approach to strategic client engagement—a dedicated client relationship function, streamlined procedures, decentralized decision making, access to IFC Advisory Services and World Bank or MIGA instruments—could not be established at the portfolio level. However, in-depth case studies of a sample of such engagements found that those elements of IFC's approach had a tangible effect on IFC's behavior: a deeper understanding of client needs, improved access to key decision makers, and involvement in upstream planning of future investments. These intermediate outcomes in turn had a positive effect on the clients' access to new markets and sectors.

IFC's ex post financial and nonfinancial additionality emerge as the key motivators for the client's engagement with IFC in support of its strategic priorities (higher-risk markets and countries). Such relationships tend to exhibit a life cycle pattern where at some point clients outgrow the need for IFC's services. The need for IFC to maintain additionality throughout this life cycle in client relationships has implications for IFC's future selection and segmentation of clients. In IEG's reviews, whereas IFC's additionality in strategic client projects has been stronger than with one-off clients, IEG found little evidence of incremental additionality over consecutive operations.

Although significant investment of resources has been made into the business development process, systematic information about interactions with clients is scarce at the business development stage and at the review and discussion of business opportunities stage, before the processing stage. Client management databases are fragmented, not well maintained, and infrequently used.

Client Engagement through Programmatic and Country-Level Interventions

In its client engagements, IFC still predominantly seeks investment opportunities at an advanced stage of preparation that can be executed within a short period. In a portfolio of client engagement approaches varying by types of clients, products and project preparation stages, the project financial structuring stage is likely to remain the dominant entry point for future client engagements. But such a predominantly short-term, market-opportunistic orientation limits IFC's ability to be truly strategic. IFC's ability to translate pressing country development needs into bankable investment projects needs to be strengthened.

Numerous IFC initiatives have attempted to strengthen its upstream and programmatic approaches at the client and country level. IEG reviewed a sample of such initiatives and found mixed outcomes. Successful approaches have not been mainstreamed within IFC. These findings point to the challenges of moving toward upstream and market-creating activities envisioned under IFC's new strategy, IFC 3.0.

On the other hand, the reviewed initiatives were highly relevant to IFC's own strategic priorities and addressed important development needs in the host country's development strategy. The reviewed country-focused interventions provided IFC with a platform for strategic, upstream client engagement focusing on addressing binding constraints to private sector development in the targeted countries and sectors. It is, however, too early to assess their contribution to IFC's strategic priorities and impact.

IEG identified the following factors of success in programmatic and country interventions: (i) high relevance in terms of the potential for private sector solutions to development needs and priorities; (ii) careful design using bankability criteria to target binding constraints to private sector development (for example, policy, regulatory, access to finance); (iii) joint teams combining transaction and policy expertise in seamless transactions with public and private sector clients for package solutions; and (iv) leveraging IFC's convening power and credibility with governments.

Although upstream and programmatic activities are complex, resource intensive, and high risk, the review also identified internal factors that deserve greater attention. IFC's incentives and culture do not appear to be conducive to the innovation and risk-taking inherent in finding solutions to move farther upstream. IFC's upstream and market-creating initiatives have often been ad hoc, isolated, and motivated by personal initiative and relationships. Success is not mainstreamed or scaled up within operations; it is often due to initiatives and risks taken by individual staff without enough institutional support. Incentives for working across existing silos between investment, advisory, policy, country, and sectors across the World Bank and IFC remain weak. Institutional encouragement to focus on upstream interventions and market creation activities, and facilitate access to resources for innovation and promotional activities and cross-cutting teams, also appeared inadequate. As IFC implements the new 3.0 strategy, these issues merit greater attention.

The findings indicate that, overall, IFC's strategic approach to client engagement can be viewed as a comprehensive and relevant response to a changing world with multiple players in the private sector development space, more financing and advisory options available to private companies looking to invest in developing countries, and more confident domestic private sector investors in emerging and frontier economies. Although the client strategic approach has not been fully and consistently implemented, indications are that its key elements have had positive effects on IFC's behavior, and suggest that a fuller implementation would yield enhanced positive results. The limited experience to date with programmatic and country-based interventions—while highlighting the challenges of upstream work with clients—points to their relevance and potential contribution to IFC's future strategic priorities. Given this, the strengthening and more systematic implementation of the strategic approach to client engagement, fully integrated with market- and country-focused upstream interventions, appears to offer good potential to support IFC's strategic priorities and to increase its development impact, as envisaged in IFC 3.0.

Recommendations

Based on the findings of this evaluation, IEG recommends the following:

I**mplement systematically the strategic approach to client engagement with focus on areas where implementation has lagged.** To do so IFC needs to:

1. Adopt clear criteria for the selection and segmentation of clients according to IFC strategic priorities including for upstream project development, cascade and creating markets.
2. Streamline procedures and processes for strategic client and strengthen criteria for additionality for strategic clients, including for the justification of incremental additionality in repeat projects addressing the same market failure.
3. Identify areas of integration of client approaches with sector and country strategies and programmatic approaches.

Strengthen the client relationship management function to enhance IFC's capacity to build a pipeline of new clients. To do so IFC needs to:

4. Establish clear accountabilities and incentives for strategic client relationship management.
5. Strengthen the business development function and support systems by inter alia increasing the transparency and accountability for client interactions and their outcomes and integrating client management databases into IFC's information architecture.

Enhance IFC's capacity for upstream engagement on projects to increase the number and quality of IFC's pipeline of strategic clients. To do so IFC needs to

6. Strengthen the capacity to operationalize findings of country and sector diagnostic work to develop new clients and investment opportunities.
7. Bolster IFC's internal incentives and resources to systematize support for upstream approaches across IFC departments.

Management Response

The Management of the International Finance Corporation (IFC) thanks the Independent Evaluation Group (IEG) for its valuable and informative evaluation report, *The International Finance Corporation's Approach to Client Engagement for Increased Development Impact – An Independent Evaluation.* As the report correctly points out, IFC's approach to client engagement has evolved considerably over the past 10 to 15 years. Clients are at the heart of IFC's business and development impact. Client engagement has been strongly influenced by the factors impacting IFC itself during this period, including shifts in the emerging markets and development landscape toward a more central role for the private sector. Our business and therefore client management became more complex. The most recent changes were embodied in the 2014 establishment of the new Client Engagement Model, implemented to align incentives and accountability for better, long-term relationship management of strategic clients. Now IFC is poised to embark on a realignment of its operating model that is intended to achieve the ambitious private sector development agenda embodied in IFC 3.0 Creating Markets strategy and the Cascade approach. To reach IFC's ambitious development targets, IFC will need not only to have increased focus on our clients and partners, but also to integrate better regional and country context and priorities with a global industry focus. Management will focus on deeper engagement with strategic clients in order to bring more effective programmatic, upstream interventions at the country and sector levels, which the report notes have been effective but not systematically implemented.

Overall, Management concurs with the report's main findings and conclusions, which confirm the positive outcomes from strategic client relationships, and provide useful guidance on how to improve the IFC approach to managing these relationships. The report positively assessed IFC's ability to achieve superior results in development impact, financial sustainability, and work quality by working with strategic clients. Since the adoption of a more strategic approach to client engagement, including the Client Service Leaders (CSLs) introduced in 2014, IFC has become a more client-focused institution and our work with these clients is associated with a deeper understanding of client needs and access to key decision makers, improved work quality, higher development impact and additionality, and better business performance. Management agrees that implementation of this approach has been inconsistent, however, and agrees with IEG's recommendations meant to ensure more systematic results across IFC's strategic client base, particularly as we expand our work in IDA and FCS contexts.

Benchmarking IFC's Approach: IFC Management finds that the comparisons with select DFIs (EBRD, EIB and IIC) as well as commercial banks are instructive and consistent with the knowledge and experience of CSLs and other client-facing staff in IFC. As the report notes, there are material differences between IFIs and private sector firms in how they can and do manage strategic clients, with unique sets of enablers and constraints that reflect the nature of each institution. However, IFC Management believes that there is much to learn by studying the experience and practices of other private financial institutions operating in emerging markets. This could be an area for a deeper investigation by the IFC and IEG teams to build on this exercise and to explore areas of further improvement. For example, IFC is exploring the possibility of using pre-approved client envelopes for engaging more effectively with key strategic clients, a practice that is common among commercial banks and other private sector financial institutions. With the new focus on creating markets, IFC Management believes that this is an area where IFC can work together with the Board to pilot approaches using a framework which encompasses multiple programmatic projects, including repeat projects with identified strategic clients. This is practiced at EBRD, for example. This type of Board-approved envelope for multiple IFC investments with standardized products serving a common objective over time is similar to the successful approach IFC and the Board have taken with FIG's trade and short-term finance business.

Link to Additionality. The evaluation finds that IFC is delivering significant financial and non-financial additionality to strategic clients, and that "IFC's financial and non-financial additionality are critical internal factors enabling IFC's contribution to a client's success." Similar to the 2015 IEG study on IFC's additionality, the evaluation finds IFC's impact to be greater when both financial and non-financial additionality are present. IFC is currently developing an enhanced framework for additionality that will introduce more rigor into the assessment and articulation of additionality, following the recent technical briefing to the Board.

Life Cycle of Client Relationships and Evolution of Additionality: We also note IEG's conclusions about the evolution of additionality with repeat clients, particularly regarding implications for IFC's strategy for selecting and supporting strategic clients. IFC Management wishes to highlight the important role and opportunity that upfront advisory work can have to support companies not yet ready for an IFC investment. Increasingly, there is upstream, market-creating work that is done through advisory services, which may be pursued in conjunction with strategic clients. For example, the IFC's "Cities Initiatives" is an example where IFC engages with municipal governments as clients and provides integrated advisory and investment services into the offering. In response to IEG's conclusions regarding the eventual "maturity" of some client relationships, it generally makes sense to ensure that IFC's interventions will have incremental additionality in successive projects. However, we also note cases where certain strategic clients may come to IFC repeatedly for the same reasons, such as informal political risk mitigation in high risk environments, so that there may not be an evolution in the type of additionality. IFC will incorporate this notion of evolution of additionality with repeat clients into the new framework under development.

Differentiation by industry and region: IFC Management takes note of the report's finding that FIG as an industry that has had more success and is perhaps better suited to strategic client engagement, since it offers a broader array of investment products and advisory services. In this regard, Management agrees that our expectations for a comprehensive client engagement model needs to take important differences across sectors and regions into account. The unique nature of the business across IFC sectors and regions can mean different ways of interacting with clients and the varying potential for the swifter execution of repeat business with strategic clients. For example, in the infrastructure sector, project finance remains the bulk of the business, and hence the core project analysis will still focus on the project itself as well as the capacity and reputation of the client group. Nevertheless, strong relationships with important global and regional infrastructure sponsors can be an important factor in business development and project outcomes, and therefore, the approach in the sector should be adjusted to work well with corporate finance and advisory in the infrastructure sector as well as project finance. On the other hand, the FIG and several MAS sectors tend to engage mostly in corporate finance transactions, which have a greater possibility of streamlined processes and procedures for transactions with strategic clients with whom IFC engages in repeat transactions. Similarly, there can be regional differentiation as well, with some regions having larger, more mature markets where IFC's work with strategic clients has shown more success, while other regions like Africa and MENA with a higher incidence of frontier, fragile and conflict-affected states may require more country focus and upstream interventions to attract investments from strategic clients. Management will be cognizant of these differences as it strengthens the client management effort.

Government entities as strategic clients: As the report notes, IFC has typically not identified government entities as strategic clients. Albeit to a limited extent, IFC has invested in state-owned enterprises, and public-private partnerships (PPPs) and supported investment climate advisory projects where government entities are the main clients. IFC Management expects this to evolve and mature under the IFC 3.0 strategy, where joint WBG country engagements in IFC's most challenging markets could benefit from a relationship-based approach to sovereign and sub-sovereign entities. Indeed, as noted above, IFC's "Cities Initiative" is already using this approach to identify key cities in our markets with whom IFC can partner in a holistic way to address their most pressing needs and achieve greater impacts utilizing the full breadth of IFC's advisory and investment offerings. Building upon IFC's previous successful experience with municipal finance, the Cities Initiative is a cross-departmental effort that draws from across IFC's investment and advisory products, as well as World Bank relationships, to meet the needs of its municipal clients. Today, IFC has 12 strategic city engagements, including the cities of Izmir, Turkey and Buenos Aires, Argentina, where both investment and advisory services have been deployed.

Programmatic and Country Engagements. The evaluation looked at a limited number of programmatic and country-level interventions, and found them to be highly relevant, important to achieving IFC strategic objectives, and key to opening new avenues for engagement with strategic clients. The report also notes that IFC has not done these engagements systematically, and that they have been difficult to integrate into IFC's transaction-based culture. This is changing now with IFC 3.0, precisely to address some of the difficulties the report notes in doing these upstream or programmatic engagements. The Infrastructure and Natural Resources Department, for example, has implemented processes to allocate time for senior investment staff to work on upstream engagements, with progress toward defined milestones incorporated explicitly into their objectives. This has facilitated the development of some of the early cascade initiatives. The Creating Markets Advisory

Window will provide an additional instrument to facilitate this type of engagement, as will the enhanced collaboration with the World Bank inherent in the cascade approach.

With these specific comments, Management is grateful for IEG's thoughtful recommendations. Given the principal finding that IFC's relations with strategic clients deliver superior results across many dimensions, the recommendations can help improve IFC's implementation of its client engagement approach, thereby improving those results even further.

Specifically, with respect to **Recommendation 1**, IFC Management agrees on the added value of explicit criteria (or framework) for the selection and segmentation of strategic clients. Earlier, it has indeed considered those clients with whom IFC wishes to partner to implement its corporate strategy, but consistent update has been challenging due to lack of agreed process which can adapt to rapid external change. The IFC 3.0 Creating Markets strategy and the Cascade, and the upstream interventions they will support, are other important aspects for this selection process going forward. In addition, based on IFC's experience, long-term financial sustainability is paramount to creating sustained development impact, where the size, sophistication and market reach of strategic clients plays an important role in optimizing global, regional and local impacts. Currently as part of the realignment of Operations, IFC's Management together with Operational Leadership working groups is considering an optimal way to address this recommendation for coherent strategic client selection, balanced with unique industry or regional requirements.

On **Recommendation 2**, IFC Management is committed to improving the productivity of staff and the efficiencies of our procedures and processes. In practice, IFC pursues a prudent project-by-project approach, which involves separate screening, appraisal and structuring of each project under a client relationship. Projects are often in different countries, and possibly different sectors. Therefore, projects must be assessed and processed based on their own merits. Nevertheless, IFC can provide better client service, especially for strategic clients, where there would be a balance between risk controls and procedural efficiency. To this end, as part of the current operational redesign, IFC is refining the roles, responsibilities and performance metrics for business development, relationship management and transaction processing to bring greater accountability and drive smarter, faster decision-making. As stated earlier, IFC Management notes the finding on incremental additionality over consecutive operations with strategic clients. While the sample size of the case studies for this particular finding is small, and further study is warranted, as noted IFC is strengthening its additionality framework.

On **Recommendation 3**, IFC Management understands that this area has revealed that IFC could better apply the CPF instrument and the identified priorities to its sector approach and client engagements as relevant. To implement the IFC 3.0 Creating Markets strategy, IFC Management is creating an operating model that will strengthen the IFC regions to complement industries and increase cooperation with the World Bank. The IFC Regional Vice Presidents will be responsible for creating a dialogue on private sector development with their counterparts in the World Bank, which is expected to improve the IFC engagement in and influence over country strategies and programmatic approaches. To this end, IFC has already launched its Country Private Sector Diagnostics in a pilot phase in FY17, and with a full roll-out beginning in FY18. In addition, the IDA Private Sector Window and the Creating Markets Advisory Window will provide IFC with new tools needed to attract strategic clients to the most difficult country settings, where Creating Markets and the Cascade will support aspirational opportunities for upstream engagement with strategic clients and private sector partners.

On **Recommendation 4**, IFC is currently studying how to strengthen the relationship management, business development and transaction processing functions for both new and repeat clients to enhance business volume, financial sustainability and client satisfaction for greater development impact. The Client Engagement Model was implemented specifically to align the incentives and accountability for better, long-term relationship management of strategic clients. Management does, however, recognize and agree on the need to continue to improve by clarifying further staff accountabilities and incentives surrounding strategic client relationships. IFC has been self-assessing its overall state in multiple ways, including the recent Diagnostic exercise that had several working groups (which led to taskforces such as on business origination and repeat business), and initiatives such as the IEG-IFC Joint Study on IFC investment work quality. These generally point us to strengthening of various accountabilities and incentives, which this evaluation reiterates regarding client engagement. In April, IFC announced a new accountability framework for investment officers, which would clarify roles and responsibilities in operations, establish clear success metrics, and align incentives and business goals. With this accountability framework, client service, an important aspect of relationship management, would be in part strengthened as recommended by the report. The CSL performance measurement metrics are also being refined to enhance and align incentives with corporate strategic priorities for stronger business development and pipeline generation. The Accountability and Decision Making (ADM) framework will be updated for operations realignment. IFC has also been working to improve the back-office systems that can enhance interactions and coordination with clients. IFC Management believes that these initiatives are taking IFC in the right direction in terms of client engagement and will focus on ensuring appropriate implementation.

On **Recommendation 5**, as part of the new operating model to implement IFC 3.0, IFC Management is considering the creation of a new specialized role of Senior Business Developers, which will have a regional focus to integrate this function into the regional and country strategies as well as to be closer to IFC's regional and local clients. Global clients that work across many regions, and sometimes also across different sectors, will also require a distinct approach for business development and relationship management. Upgrades to IFC IT systems currently underway are geared towards better information dissemination around clients across teams to better support operations.

On **Recommendation 6**, IFC is making progress in this direction, which is a critical part of its 3.0 Strategy. The Economics and Private Sector Development VPU was created in January

2017, which has developed a methodology for improved country private sector diagnostic work. The Country Private Sector Diagnostics (CPSDs), currently developed by the IFC, shall serve as an important input and reference point, as they are designed to identify impediments to private investment and market-based approaches. The VPU is playing a key role in bringing rigorous analytics to inform both country and sector strategies, and to ensure the integration of regional/country priorities and needs with sectoral capacity.

On **Recommendation 7**, IFC Management believes that the implementation of this recommendation will be critical to achieving IFC 3.0 strategy and to creating markets in some of our most difficult markets. The re-establishment of Regional Vice Presidents at IFC is designed to enhance IFC's organizational alignment and improve collaboration with the World Bank. This is the first step to ensuring that IFC and World Bank staff are interacting in a strategic way to create upstream client engagements at the country and regional levels. As the report correctly observes, upstream engagements require a long-term vision and may not necessarily produce immediate results for IFC's core investment business. IFC Management will seek to find the right balance of incentives for staff to spend time on long-term, upstream engagements with clients and countries and the incentives for a stronger business development function that will drive IFC's volumes and impact in the shorter term. Particularly relevant to this recommendation, the WBG has launched the Presidential Exchange Program, which will move senior staff from across the WBG to different units (for example, World Bank to IFC) on one-year assignments to develop better understanding of how the different institutions function and their products, with a specific focus on developing more Cascade-enabling projects.

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Management Action Record

IEG Findings and Conclusions	IEG Recommendations	Acceptance by IFC Management	IFC Management Response
Although the client strategic approach has not been fully and consistently implemented, indications are that its key elements have had positive effects on IFC's behavior, and suggest that a fuller implementation would yield enhanced positive results.	**I. Implement systematically the strategic approach to client engagement with focus on areas where implementation has lagged.** To do so IFC needs to:		
Overall, IFC's approach to strategic client engagement has been only partially and unevenly implemented. In practice, IFC has applied an ad hoc spectrum of approaches driven by sector and client needs. IFC has lacked clear criteria for identification and segmentation of strategic clients. Instead, it tended to engage in repeat operations with more sophisticated clients. At the same time, IFC's upstream and market-creating initiatives have often been ad hoc and isolated, lacking mainstreaming.	1. Adopt clear criteria for the selection and segmentation of clients according to IFC strategic priorities including for upstream project development, cascade and creating markets.	Agree	IFC Management agrees on the added value of explicit criteria (or framework) for the selection and segmentation of strategic clients. Earlier, it has indeed considered those clients with whom IFC wishes to partner to implement its corporate strategy, but consistent update has been challenging due to lack of agreed process which can adapt to rapid external change. The IFC 3.0 Creating Markets strategy and the Cascade, and the upstream interventions they will support, are other important aspects for this selection process going forward. In addition, based on IFC's experience, long-term financial sustainability is paramount to creating sustained development impact, where the size, sophistication and market reach of strategic clients plays an important role in optimizing global, regional and local impacts. Currently as part of the realignment of Operations, IFC's Management together with Operational Leadership working groups is considering an optimal way to address this recommendation for coherent strategic client selection, balanced with unique industry or regional requirements.
IFC does not differentiate its pricing, risk management and headroom, due diligence and deployment of types of instruments, and aftercare for strategic clients. An analysis of IFC comparator institutions	2. Streamline procedures and processes for strategic clients and strengthen criteria for additionality for strategic clients, including for the justification	Agree	IFC Management is committed to improving the productivity of staff and the efficiencies of our procedures and processes. In practice, IFC pursues a prudent project-by-project approach, which involves separate screening, appraisal and structuring of each project under a client relationship. Projects are often in

IEG Findings and Conclusions	IEG Recommendations	Acceptance by IFC Management	IFC Management Response
suggests the need for greater differentiation between clients that IFC regards as current or future partners for the pursuit of its strategic priorities from those that are reliable sources of repeat business with volume and credit quality being the key consideration. Financial and non-financial additionality are critical factors for achieving IFC's strategic priority of moving into higher risk markets. The need to maintain additionality over time in strategic client relationships has implications for IFC's selection and segmentation of clients. For instance, when undertaking repeat projects with the same client, IFC faces the challenge of maintaining its additionality throughout the life cycle of the client relationship.	of incremental additionality in repeat projects addressing the same market failure.		different countries, and possibly different sectors. Therefore, projects must be assessed and processed based on their own merits. Nevertheless, IFC can provide better client service, especially for strategic clients, where there would be a balance between risk controls and procedural efficiency. To this end, as part of the current operational redesign, IFC is refining the roles, responsibilities and performance metrics for business development, relationship management and transaction processing to bring greater accountability and drive smarter, faster decision-making. As stated earlier, IFC Management notes the finding on incremental additionality over consecutive operations with strategic clients. While the sample size of the case studies for this particular finding is small, and further study is warranted, as noted IFC is strengthening its additionality framework.
The reviewed programmatic interventions are highly relevant for IFC's strategic priorities and address priority needs in the host countries' development strategy. However, the extent to which programs engaged with existing or new clients varied widely.	3. Identify areas of integration of client approaches with sector and country strategies and programmatic approaches.	Agree	IFC Management understands that this area has revealed that IFC could better apply the CPF instrument and the identified priorities to its sector approach and client engagements as relevant. To implement the IFC 3.0 Creating Markets strategy, IFC Management is creating an operating model that will strengthen the IFC regions to complement industries and increase cooperation with the World Bank. The IFC Regional Vice Presidents will be responsible for creating a dialogue on private sector development with their counterparts in the World Bank, which is expected to improve the IFC engagement in and influence over country strategies and programmatic approaches. To this end, IFC has already launched its Country Private Sector Diagnostics in a pilot phase in FY17, and with a full roll-out beginning in FY18. In addition, the IDA Private Sector Window and the Creating Markets Advisory Window will provide IFC with new tools needed to attract strategic clients to the most difficult country settings, where Creating Markets and the Cascade will support

IEG Findings and Conclusions	IEG Recommendations	Acceptance by IFC Management	IFC Management Response
			aspirational opportunities for upstream engagement with strategic clients and private sector partners.
IFC did not develop or adapt accountabilities, incentives, or internal culture to support a shift toward a strategic client model or for engaging farther upstream.	**II. Strengthen the client relationship management function to enhance IFC's capacity to build a pipeline of new clients.** To do so IFC needs to:		
IEG found weak staff incentives and limited accountabilities for the responsibility of nurturing long term strategic focus for strategic relationship management.	4. Establish clear accountabilities and incentives for strategic client relationship management.	Agree	IFC is currently studying how to strengthen the relationship management, business development and transaction processing functions for both new and repeat clients to enhance business volume, financial sustainability and client satisfaction for greater development impact. The Client Engagement Model was implemented specifically to align the incentives and accountability for better, long-term relationship management of strategic clients. Management does, however, recognize and agree on the need to continue to improve by clarifying further staff accountabilities and incentives surrounding strategic client relationships. IFC has been self-assessing its overall state in multiple ways, including the recent Diagnostic exercise that had several working groups (which led to taskforces such as on business origination and repeat business), and initiatives such as the IEG-IFC Joint Study on IFC investment work quality. These generally point us to strengthening of various accountabilities and incentives, which this evaluation reiterates regarding client engagement. In April, IFC announced a new accountability framework for investment officers, which would clarify roles and responsibilities in operations, establish clear success metrics, and align incentives and business goals. With this accountability framework, client service, an important aspect of relationship management, would be in part strengthened as recommended by the report. The CSL

IEG Findings and Conclusions	IEG Recommendations	Acceptance by IFC Management	IFC Management Response
			performance measurement metrics are also being refined to enhance and align incentives with corporate strategic priorities for stronger business development and pipeline generation. The Accountability and Decision Making (ADM) framework will be updated for operations realignment. IFC has also been working to improve the back-office systems that can enhance interactions and coordination with clients. IFC Management believes that these initiatives are taking IFC in the right direction in terms of client engagement and will focus on ensuring appropriate implementation.
Key objectives of IFC's strategic client engagement have not been achieved as manifested by a lack of new quality business. In addition, while strategic clients contributed to an increase in IFC's business volume in priority areas but have not driven this growth. Finally, IFC's systems to identify, track and manage client relationships lack consistency and are disjointed, limiting its ability to leverage business opportunities.	5. Strengthen the business development function and support systems by inter alia increasing the transparency and accountability for client interactions and their outcomes and integrating client management databases into IFC's information architecture.	Agree	As part of the new operating model to implement IFC 3.0, IFC Management is considering the creation of a new specialized role of Senior Business Developers, which will have a regional focus to integrate this function into the regional and country strategies as well as to be closer to IFC's regional and local clients. Global clients that work across many regions, and sometimes also across different sectors, will also require a distinct approach for business development and relationship management. Upgrades to IFC IT systems currently underway are geared towards better information dissemination around clients across teams to better support operations.
The limited experience to date with programmatic and country-based interventions—while highlighting the challenges of upstream work with clients—points to their relevance and potential contribution to IFC's future strategic priorities. Given this, the strengthening and more systematic implementation of the strategic approach to client engagement, fully integrated with market- and country-focused upstream interventions, appears to offer good potential for supporting IFC's strategic priorities—as reflected in IFC 3.0—and increasing its development impact.	**III. Enhance IFC's capacity for upstream engagement on projects to increase the number and quality of IFC's pipeline of strategic clients.** To do so IFC needs to:		

IEG Findings and Conclusions	IEG Recommendations	Acceptance by IFC Management	IFC Management Response
Establishing strategic links between country needs and aspirational client engagements for IFC through Bank Group country strategies remains a challenge. IEG's assessment of SCD and CPF founds that for IFC the CPFs mostly reflect ongoing projects. This points to the challenges of applying a strategic approach to client engagements at the country level.	6. Strengthen the capacity to operationalize findings of country and sector diagnostic work to develop new clients and investment opportunities.	Agree	IFC is making progress in this direction, which is a critical part of its 3.0 Strategy. The Economics and Private Sector Development VPU was created in January 2017, which has developed a methodology for improved country private sector diagnostic work. The Country Private Sector Diagnostics (CPSDs), currently developed by the IFC, shall serve as an important input and reference point, as they are designed to identify impediments to private investment and market-based approaches. The VPU is playing a key role in bringing rigorous analytics to inform both country and sector strategies, and to ensure the integration of regional/country priorities and needs with sectoral capacity.
IFC's incentives and culture are not conducive to the innovation and risk taking inherent in developing solutions to move upstream in the project cycle. Institutional encouragement to focus on upstream and market creating interventions, and facilitating access to resources for innovation and promotional activities and cross-cutting teams appeared inadequate	7. Bolster IFC's internal incentives and resources to systematize support for upstream approaches across IFC departments.	Agree	IFC Management believes that the implementation of this recommendation will be critical to achieving IFC 3.0 strategy and to creating markets in some of our most difficult markets. The re-establishment of Regional Vice Presidents at IFC is designed to enhance IFC's organizational alignment and improve collaboration with the World Bank. This is the first step to ensuring that IFC and World Bank staff are interacting in a strategic way to create upstream client engagements at the country and regional levels. As the report correctly observes, upstream engagements require a long-term vision and may not necessarily produce immediate results for IFC's core investment business. IFC Management will seek to find the right balance of incentives for staff to spend time on long-term, upstream engagements with clients and countries and the incentives for a stronger business development function that will drive IFC's volumes and impact in the shorter term. Particularly relevant to this recommendation, the Bank Group has launched the Presidential Exchange Program, which will move senior staff from across the Bank Group to different units (for example, World Bank to IFC) on one-year assignments to develop better understanding of how the different institutions function and their products, with a specific focus on developing more Cascade-enabling projects.

1. Introduction

Highlights

- From the early 2000s, the International Finance Corporation (IFC) has aimed to transform itself from an operational model based on transactions to a client-centered institution through a more strategic approach to client engagement. The rationale has been to enhance the development impact of IFC and its clients.
- This evaluation assesses how strategic and effective IFC has been in its approaches to client engagement during fiscal years (FY) 04–16. It aims to inform aspects of IFC's implementation of its new strategy, IFC 3.0.
- This evaluation is based on a comprehensive assessment of IFC's investment and advisory portfolio (covering FY04–16), supplemented by purposely selected case studies of long-term client-focused partnerships, programmatic interventions, and country-focused interventions.

The global community has set itself ambitious objectives for ending poverty, promoting shared prosperity, and fostering social progress by 2030 with the adoption of the Sustainable Development Goals. Leveraging the private sector is critical to mobilizing the additional resources needed to achieve these development goals. World Bank Group strategies highlight the need for the World Bank Group to bring together public and private sector expertise to help address development challenges (World Bank Group 2014, 2016). Within this agenda, the mandate of the International Finance Corporation (IFC) mandate is to promote economic development by supporting the growth of productive private enterprise in its developing member countries—particularly in less developed and higher-risk areas—in partnership with private sector clients. In line with this mandate, IFC's strategy has consistently focused on frontier markets, including International Development Association (IDA) countries and fragile and conflict-affected situations (FCS).

Since the early 2000s, in pursuing this mandate IFC has aimed to transform itself from a transaction-focused to a client-centered institution. The rationale was to enhance the project outcomes of its clients and IFC's developmental impact. In response to the evolving scale and increasing complexity of development issues and the emergence of new sources of private sector financing, IFC has gradually refined its approach to engaging clients from a strategic perspective to more effectively pursue its corporate objectives and enhance its development impact. IFC's current strategy, IFC 3.0, aims to adapt the institution to the new, complex development challenges and increasingly diverse landscape of providers of private capital by focusing on creating markets and mobilizing capital.

IFC's strategic approach to client engagement: As stated in IFC's *Articles of Agreement*, "the purpose of the Corporation is to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in less developed areas" (1956, 1). Article 1 outlines three modalities for carrying out this purpose: (i) by assisting private investors in the establishment, improvement and expansion of productive enterprises; (ii) by bringing together investment opportunities with private capital and experienced management; and (iii) by helping create conditions conducive to private productive investment in member countries. For the past 60 years, IFC's strategy for pursuing this mandate has gradually evolved, most notably from the early 2000s, through the gradual implementation of a strategic approach to client engagement.

The concept of client engagement originally emerged in business literature in the late 1990s based on the recognition that better business opportunities could be created by moving from a focus on one-off transactions to investing in building deeper and broader relationships with clients (Biggs 2010; Bowden 2009; Brodie et al. 2011; EIU 2007). In the face of strong competition based on price and quality, companies began to see the level of client engagement as an important product differentiator. Instead of traditional transactions involving a specific project, private companies aimed at creating a more meaningful and enduring connection by developing new ways to become familiar with client needs and expectations and proactively combining all available resources to fulfill them.

IFC's strategic engagement with existing and new clients is intended to catalyze investment in new markets, enhance IFC's development impact, and improve business efficiency. Various IFC corporate strategy documents have identified the key components of the client engagement approach, including formulating sector, market, and country strategies; identifying and segmenting strategic clients; establishing a client relationship management function to nurture strategic client relationships; accelerating decentralization to be closer to clients; streamlining procedures and decision making to improve IFC's responsiveness; supporting upstream work with strategic clients, including through project development and market creation activities; and investing in technologies and knowledge management to, among other things, upgrade risk management and systems.

For the purposes of this evaluation, the Independent Evaluation Group (IEG) has defined key client engagement terms and concepts, derived from their use in successive IFC strategic documents (box 1.1).

Box 1.1. Definitions of Key Concepts Used in the Evaluation

- *Clients* are mainly private companies that use and pay for products and services provided by the International Finance Corporation (IFC) and through which IFC can pursue its strategic objectives. Clients can be actual and potential, one-off and repeat. In line with the strategic intent of IFC's approach to client engagement, these clients have been combined into client groups that include all companies which are either majority owned or controlled by same parent company. This evaluation excludes government and public sector clients served mainly through IFC Advisory Services.
- *Strategic clients* are clients identified according to their strategic importance based on factors such as their potential business volume in the future, potential demonstration effect for private sector development and development impact, and alignment with IFC's strategic priorities (such as countries or sectors), policies, and country development needs.
- *Client engagement* is the processes, rules, and practices that IFC uses to identify needs and opportunities with existing or new clients to meet their common objectives in a spirit of partnership; to market, sell, and deliver solutions or services to them; and to monitor client satisfaction with the services or solutions delivered.
- *Strategic client engagement* refers to IFC's approach to strategic clients through dedicated relationship management teams to develop a strong and deep partnership and understanding of client needs, and assist with the upstream identification, design, and implementation of investments aligned with IFC strategic priorities.
- *IFC's strategic priorities* over the past decade have consistently included a list of priority countries and markets (frontier markets, including International Development Association countries and fragile and conflict-affected situations) and sectors (infrastructure, local financial markets, health and education) aligned with the goal of maximizing development impact.

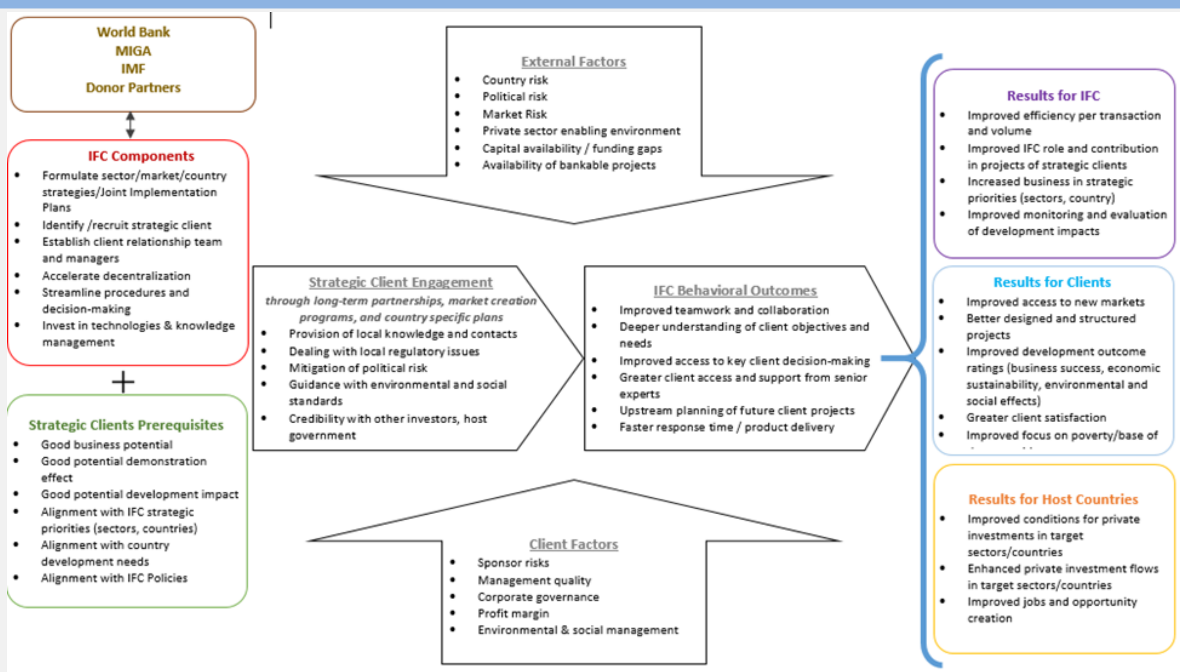
Purpose and Objective

This evaluation, coming over a decade after the emergence of IFC's more strategic approach to client engagement, assesses the extent to which IFC's strategic shift toward a client service model has been implemented, has enhanced its clients' project outcomes, and has helped IFC improve its own development outcomes and impacts. It derives lessons from experience and informs future efforts to improve IFC's approach to client engagement in country and client contexts to enhance its development impact. The report was prepared as IFC embarks on its new strategy, IFC 3.0, which focuses on moving toward market-expanding and -creating initiatives upstream from the project, and aims to inform aspects of its implementation.

Approach, Scope, and Methodology

IFC's client engagement strategies have evolved substantially over time, and IEG has distilled their intent, objectives, and key components from a series of IFC strategy documents. The study is thus based on the objectives that IFC intended to achieve through a more strategic engagement with clients as synthesized from different IFC strategy documents or presentations shared with the Board of Directors between fiscal year (FY) 04 and FY17. By strategically identifying and proactively deepening and broadening its engagement with selected clients, IFC expected to maximize its development impact in terms of achievement of strategic priorities and contribution to development outcomes. IFC's documents identify logical causal relationships underlying IFC's approach, from which an underlying theory of change can be derived, is outlined in Figure 1.1. The linkages between inputs and impacts in the theory of change are mainly based on the client strategic engagement model launched in *IFC 2010: A Client Centered Corporation* (IFC 2007), specifically designed to boost IFC's development impact while growing its business in priority areas. IEG's evaluation reflects, and is structured around, the main objectives of the client engagement approaches, while recognizing that IFC's approach to client engagement has evolved since the early 2000s.

Figure 1.1. Theory of Change of Strategic Approach to Client Engagement



Although IFC engages clients in a spectrum of strategic and episodic ways, this evaluation focuses on the three main modalities:

- **Client-focused partnerships:** IFC's engagements with long term clients to help them enter new markets and enhance their contribution to IFC's strategic priorities. Examples include long-standing IFC private sector clients such as Raiffeisenbank, Ecom, AES, and the Aga Khan Fund for Economic Development (AKFED).

- **Programmatic interventions:** Sector-focused multi-country programs or initiatives through which IFC engages clients by first investing in the upstream diagnostics, identification, and development of investment projects, risk mitigation, and relationship brokering with key project stakeholders including cofinanciers, government, donors, and other parties. Examples include InfraVentures, Africa Micro, Small, and Medium enterprises (AMSME), Health in Africa, and Lighting Africa.

- **Country-focused interventions**: programmatic or systematic approaches at the country level where IFC helps create conditions for attracting new and existing clients to address high priority development needs of the country. This modality calls for a more purposively strategic selection of IFC clients to enhance the likelihood of being able to support projects that meet the development needs of the country. Examples include joint World Bank Group sector plans in Côte d'Ivoire, Myanmar and Mali.

Given the importance of the first modality, the report's focus is on client-focused partnerships.

The evaluation uses multiple sources. The key components consist of a comprehensive assessment of IFC's investment and advisory portfolio (covering FY04–16) using different categories of client groups identified by the evaluation to derive characteristics and patterns of performance based on IFC project and evaluative databases. The evaluation also undertook case studies of long-term client-focused partnerships (16), programmatic interventions (4), and country-focused interventions (3), purposely selected to illustrate the main modalities of client engagement. The case studies consisted of a desk review complemented by interviews with IFC staff and client counterparts where feasible. In addition, IEG reviewed relevant IFC strategy documents and business literature and analyzed IFC client surveys. It conducted statistical analyses to explore drivers of performance. The evaluation also included some interviews with IFC comparator institutions to benchmark IFC's approaches to client engagement. Appendix A presents the methodology for the evaluation.

The report is organized as follows: Chapter 2 discusses IFC's strategic approach to and implementation of client engagement. Chapter 3 summarizes the effects of IFC's client-focused partnerships on its strategic clients, IFC itself, and host developing countries. Chapter 4 presents enablers and constraints associated with the effects of the client-focused partnerships. Chapter 5 presents findings related to programmatic interventions and country-based interventions. Chapter 6 concludes with main findings and recommendations.

2. The Strategic Client Engagement Approach

Highlights

- Implementation of IFC's approach to strategic client engagement has been uneven across industry groups. A client strategic engagement model was launched but not widely adopted. Instead, IFC's strategy has evolved over time. In practice, IFC has applied an ad hoc spectrum of approaches driven by sector and client needs. IFC has also lacked clear criteria for identification and segmentation of strategic clients.
- In the absence of an institutionally agreed distinction between strategic and one-off clients, this study has used "repeat" clients and IFC's ex ante identification as potential long-term partners as its main criteria to identify de facto strategic clients. Compared with one-off clients, such strategic clients have featured larger commitment amounts, a higher share of investments in higher-risk countries, and better management quality, profit margins and corporate governance.
- An analysis of IFC comparator institutions suggests the need for greater differentiation between clients that IFC regards as current or future partners for the pursuit of its strategic priorities from those that are reliable sources of repeat business with volume and credit quality being the key consideration.
- Strategic clients receive similar treatment compared with one-off clients in terms of pricing, types of instrument deployed, and aftercare.

IFC's strategic focus on clients has evolved since its emergence in 2004, when IFC first identified long-term partnerships with emerging global players in developing countries as a strategic priority (IFC 2004). The concept of engaging with selected clients farther upstream, more deeply and broadly, to achieve greater impact in line with its strategic priorities was more fully articulated with the introduction of the client strategic engagement model (IFC 2007). In 2014, IFC established an enhanced client engagement model (IFC 2014). Most recently, IFC recognized the continuing need to deliver on its mandate by working with new and existing clients to support the development of new markets and broaden and deepen existing markets. Figure 2.1 presents key organizational milestones in IFC's transformation toward a more client-centric institution.

Relevance and Implementation of Client-Focused Partnerships

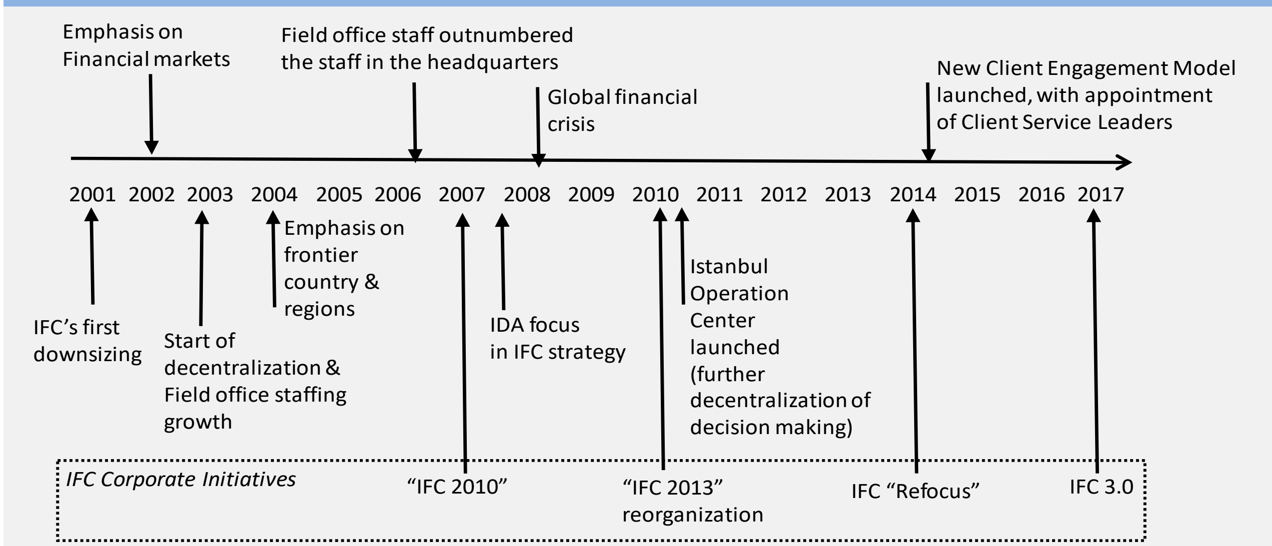
The approach to client engagement since 2007 is characterized by the coordinated implementation of the following elements:

- Formulation of industry and country strategies with identification of strategic clients
- Selection and segmentation of strategic clients
- Designation of client relationship managers and teams to systematize IFC client relations

- Accelerated decentralization to be closer to the client
- Streamlined procedures and delegation of decision making to improve IFC's responsiveness to clients
- Supporting upstream work with clients including project development
- Investments in technology and knowledge management to, inter alia, upgrade risk management and client relationship systems.

This evaluation focuses on the effects of the approach to client engagement on the clients' and IFC's development impact. However, although the following paragraphs discuss the relevance and implementation of key elements of the evolving approach to client engagement, IEG did not systematically assess the decentralization, human resources management, and technology and knowledge management aspects of the approach, as these areas were beyond the scope of this evaluation.

Figure 2.1. Timeline of Institutional Changes Related to Client Engagement



RELEVANCE OF THE APPROACH

The design of IFC's evolving approach to strategic client engagement was comprehensive and relevant to supporting the objective of increasing its development impact. IFC strategy documents from 2004 to 2016 appropriately discuss and propose a comprehensive package of elements for a strategic approach to client engagement, as well as complementary organizational changes, performance indicators, and staffing and systems needs. The objectives of increasing IFC's investments in corporate priority areas, deepening relationships with clients, and achieving business efficiencies through strategic clients are broadly aligned with and supportive of IFC's corporate priorities and its development mandate. With the benefit of hindsight, some elements of the strategy may have been overoptimistic—such as the expectation of increased business efficiency and IFC's ability to influence the client's poverty focus—but, overall, the proposed approaches were fully consistent with the diagnostic assessments underpinning the proposed changes, as well as insights from comparator institutions and the business literature.

One important area absent from IFC's client engagement strategy is a consideration of the life cycle pattern typically found in long-term relationships. This dynamic evolution of client relationships, as clients at some point outgrow the need for IFC's services and alternative sources of finance become available, is not specifically discussed in the strategy papers. Questions may also arise about the extent to which the risks associated with decentralization—in terms of geographic isolation of staff and deterioration of global knowledge—and the scaling or segmentation of client engagement on the basis of IFC's strategic priorities and comparative advantage (for example, with respect to focusing on part 2 versus part 1 clients, or more sophisticated clients versus those requiring IFC's assistance to strengthen their corporate governance) were adequately considered in the key documents.

Finally, the planning and discussion of IFC's approach to strategic client engagements appropriately considered the trade-offs between the costs of transition and implementation—including investments in infrastructure, knowledge, and human resources—and the expected benefits in terms of improved client service, business growth, increased efficiency and profitability of operations, and greater development impact.

IMPLEMENTATION

Although the architecture of IFC's strategic approach to client engagement was appropriate, its implementation has been incomplete. Key elements of strategic client engagement, such as the selection and segmentation of strategic client and the establishment of a client relationship function and managers, have only been partially and unevenly implemented across different industry departments. For example, although the Financial Institutions Group (FIG) was at the forefront of the move toward client relationship management—perhaps facilitated by the nature of its clients: financial institutions, many with repeat transactions—implementation in other groups followed with a lag and with different approaches.

FORMULATION OF INDUSTRY AND COUNTRY STRATEGIES WITH IDENTIFICATION OF STRATEGIC CLIENTS

According to *IFC 2010: A Client-Centered Corporation,* the client strategic engagement model would be driven first by regional and then by industry strategy, both leading to a selection of firms that IFC would see as partners over the long term (IFC 2007). Following the strategy and client identification process, clients would be segmented based on their strategic importance using the following criteria:

- Current exposure and potential business volume over the next five years
- Relevance of the client in the country's private sector
- Potential for demonstration effect and development impact

Guided by these criteria, regional and industry teams were expected to identify the top 35–50 existing and potential clients in their regions. This segmentation was expected to balance the objective of getting new clients with opportunities to do more with existing clients.

IEG found, however, that IFC industry strategies were mainly relevant for identifying business opportunities with new or existing clients, rather than for supporting World Bank Group–wide country strategies. Most industry strategies (and subsector strategies) identified areas of business opportunities and development potential and a list of possible clients, without much thought given to segmentation. This practice continues to date. However, these lists are not necessarily synonymous with strategic clients, and may not be in sync with approaches by client service leaders or IFC AS teams. This points to the absence of a systematic implementation of the proposed strategic client identification and segmentation criteria.

IFC has not identified government entities as strategic clients. When *IFC 2010: A Client-Centered Corporation* was introduced, IFC's Regional departments prepared pilot client strategies, including for some low-income, post conflict countries and donor agencies. However, this practice was not maintained, despite of the fact that IFC has invested in state-owned enterprises and government entities are the main clients in public-private partnerships (PPPs).

Establishing strategic links between country needs and aspirational client engagements for IFC through World Bank Group country strategies remains a challenge. IEG's assessment of the Systematic Country Diagnostic (SCD) and Country Partnership Framework (CPF) found that for IFC, the CPFs mostly reflect ongoing projects rather than potential future ones, highlighting the difficulty of planning future private sector investment opportunities. Thus, 63 percent of IFC projects listed in the 22 reviewed CPFs were ongoing investments. The remaining 37 percent were mostly engagements already in the pipeline or at an advanced stage of preparation. This points to the challenges of applying a strategic approach to client engagements at the country level and of using the CPF instrument to identify new, aspirational opportunities for private client engagement (World Bank 2016).

SELECTION AND SEGMENTATION OF STRATEGIC CLIENTS

IFC has not systematically implemented its proposed criteria for the selection and segmentation of strategic clients. No clear differentiation is made between clients that are strategic because of their potential contribution to IFC's development impact and those clients mainly identified as a source of repeat business. Therefore, the two types of clients overlap. As already noted, there are different lists of strategic clients at various levels (such as for client service leaders and Advisory Services [AS] teams) and for different industry groups, but those lists are not considered exclusive or authoritative.

The available documentary evidence of client-level engagement strategies is minimal. IFC has not typically documented client-level objectives, opportunities, or strategies for engagement. In the few cases where a formal client engagement plan or strategy document was prepared, they tended to focus on operational issues such as project status, pipeline management or exposure limits rather than on strategic objectives or aspirations. These documents appear to reflect an episodic, ad hoc approach with different departments or industry groups, and even individual investment officers, adopting their own individual strategies, rather than the consistent development of client engagement strategies and value propositions for priority clients as proposed under the strategic client engagement model.

IFC's ex ante flagging of many new clients as potential "long-term partners" is solely based on their repeat business potential, not broader strategic criteria. About 17 percent of client groups supported by IFC during FY04–16 are flagged as long-term partners in IFC's portfolio database. IEG confirmed that, since FY06, many first-time clients have been identified as potential long-term partners in the approval stage board reports. This identification is based on the expectation that the project will build a relationship with the client that leads to subsequent interventions. The other criteria identified in the client strategic engagement model—relevance of the client in the country's private sector and potential for demonstration effect and development impact—do not appear to be considered.

IEG also found weak staff incentives for nurturing a long-term strategic focus in client relationship management. Based on interviews with key staff and managers involved with strategic clients, staff incentives remain focused on volume targets, targets in priority areas such as IDA, and reach indicators in IFC's corporate scorecard. However, in the absence of client-level engagement strategies, IFC has not developed incentive mechanisms to measure and reward long-term engagement with clients and activities related to strategic initiatives, such as upstream work or programmatic and country-focused interventions, which often carry significant cost and require a longer time horizon.

APPOINTMENT OF CLIENT RELATIONSHIP MANAGERS AND TEAMS

The creation of a client relationship management function was a key element of the 2007 client strategic engagement model. This function was subsequently relaunched as client service leaders in FY15 (IFC 2015). As currently defined, the client service leaders' role is to develop, coordinate, and deepen quality client relationships, rather than being responsible for business development, volume targets, portfolio management, or allocation of headroom with the specific client. Based on interviews with IFC staff, the appointment of relationship managers or client service leaders is mainly carried out for clients whose portfolio stretched over different regions or sectors, that is, it is largely driven by a need for greater coordination and communication across separate project teams. As of 2017, 19 client service leaders had been appointed to cover 260 clients, [1] corresponding to about 3 percent of IFC's client groups with an active portfolio.

In addition to the client service leaders, who serve a subset of long-term clients and some prospective clients, IFC has other arrangements for servicing clients, such as by country or regional office staff, investment officers, and portfolio staff in industry and regional departments—painting a heterogeneous landscape of different models of client management across IFC. In-depth case studies of a sample of client engagements confirm the existence of a diversity of client relationship arrangements, mostly driven by the needs and characteristics of the client company and industry group and ongoing personal relationships. There thus appears to be a reasonably pragmatic continuum of client relationship arrangements and functions without, however, a clear and systematic segmentation based on strategic priorities.

ACCELERATED DECENTRALIZATION

The 2007 client strategic engagement model was complemented with the accelerated decentralization of staff to bring them closer to clients. In the early 2000s, IFC's client base became increasingly developing country based, demanding IFC's presence in the field. Moreover, clients expressed growing dissatisfaction with the lack of IFC's responsiveness and timeliness. Thus, IFC gradually changed from a headquarters-centric organization to a field-based one, with significant transfer of staffing and decision making to the field. From FY09, IFC's field office staff has outnumbered those in headquarters, and currently 65 percent of IFC staff are in field offices. IFC's regional hubs have taken the lead in project processing and are empowered to make around 90 percent of decisions.

Increased decentralization, however, has raised concerns over the development of regional "silos" and deterioration in global knowledge and sharing of global experience. IFC professional staff based in the field have shorter experience at IFC than headquarters staff (by 2 to 4 years on average). A joint review by the IFC-IEG Work Quality Working Group identified issues related to staff experience and access to knowledge as key factors in the significant deterioration of IFC's ex ante work quality since FY07. Opportunities for junior staff to learn from senior staff might have been limited in field offices where staff turnover had been higher. Furthermore, a 2013 IFC review of decentralization found little change in overall operation processing times, and a less than expected increase in the commitment amount per investment officer.

STREAMLINED PROCEDURES AND DELEGATION OF DECISION MAKING

Another key element of the client strategic engagement model involved the expediting of IFC's processes through streamlining and shifting decision making closer to clients. The evidence from case studies found that about half of the sample portfolio had been flagged for streamlined procedures in the Board documents. But delegated decision making (that is, "regional delegated authority") was only found in the financial markets cluster, possibly due to the higher frequency of repeat operations. Overall, this element of the client model has seen relatively little progress.

INVESTMENTS IN TECHNOLOGY AND KNOWLEDGE MANAGEMENT

The evaluation did not systematically assess IFC's technology systems, processes—including improvements to the risk management process—and knowledge management initiatives anticipated with the introduction of a more strategic approach to clients. IEG did not find evidence of systematic tracking of risks and exposure at the client group level to underpin the focus on client relationships. Little evidence exists of specific skills development for client relationship managers.

IFC's systems to identify, track, and manage client relationships have weaknesses. IFC has at least three distinctive layers of client and partner databases with unique purposes, processes, and systems.[2] Consistency in creating and maintaining client information and data between the databases is lacking. Dissimilar and disjointed processes and systems can prevent or limit IFC's ability to leverage business opportunities because existing client relationships within client groups may not be effectively leveraged due to the lack of coordination between the various IFC touchpoints. Thus, there is scope for streamlining and establishing clear accountability over client and partner databases.

Overall, the implementation of IFC's approach to client engagement has remained incomplete, with major gaps in the systematic selection and segmentation of strategic clients, and a lack of differential treatment and relationship management based on their potential development impacts, specific engagement plans, and value propositions.

Benchmarking the Client Engagement Approach

An analysis of IFC comparator institutions shows that private and public sector financiers have adopted a range of strategic approaches to client engagement. IEG interviewed three international financial institutions—the European Bank for Reconstruction and Development, the European Investment Bank, and the Inter-American Investment Corporation—and researched insights from commercial banks regarding their approaches to client relationship management. The examples show varying degrees of client focus (in addition to emphases on geography, sector, or instrument), and all involve a matrix structure in terms of organizational responsibilities. The same is seen in the commercial banking sector, where most institutions are client focused. However, a commercial banking client relationship with large corporate clients will often involve a greater range of day-to-day services than those provided by IFC or other international finance institutions in line with their development mandates—for example, cash management, foreign exchange, hedging, and related transaction services.

The benchmarking analysis points to the potential for a greater differentiation between clients that IFC regards as current or future strategic partners for the pursuit of its core institutional objectives, and those that are reliable sources of repeat business with volume and credit quality being key considerations. A tier structure proposed by other finance institutions (the Inter-American Investment Corporation) could have merit in helping IFC identify different client strata along these lines. Other institutions have also implicitly recognized the risk of decreased additionality with repeat business and are cognizant of the need to demonstrate greater impact with each transaction or to leverage the relationship through the coordinated provision of financial and nonfinancial services toward a longer-term development objective. Otherwise, the relationship would not be considered strategic.

The most client-focused comparator institution (the European Investment Bank) features the appointment of dedicated client relationship managers with broad responsibility (including business development, allocating headroom, and acting as a loan officer for that client). This is also a practice found in private commercial banks, where relationship managers may be accountable for business origination and the performance of their client portfolio. IFC's client relationship managers do not have such responsibilities.

Practices in commercial banks generally reflect substantial differentiation among top tier clients, one-off clients, and those marked for exit—based on an assessment of revenue and strategic fit. Private banks also demonstrate flexibility in offering differential treatment in terms of access, faster turnaround, pricing, and special conditions extended to maintain a long-term relationship. To some extent, such arrangements reflecting the private sector nature of these actors may be at odds with the development mandate of IFC. Feedback from private banks also emphasized the need to develop different skill sets for relationship and client engagement managers, and the required level of staff seniority for effective client management.

Characteristics of De Facto Strategic Clients

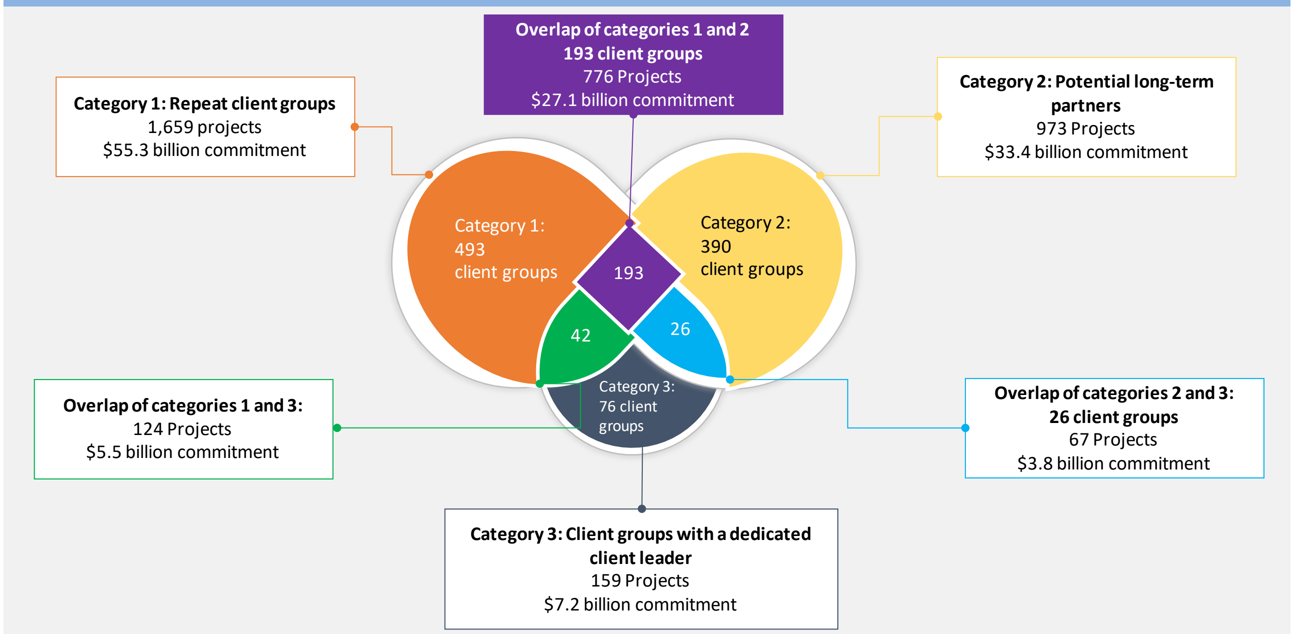
In the absence of an official, commonly agreed on list of IFC's strategic clients, this study has used three criteria to identify de facto strategic clients. IFC documents do not flag a clear distinction between strategic and nonstrategic clients, nor is there a clear understanding among IFC staff interviewed for this study of what a strategic client is.

Given this, IEG has, for analytical purposes, adopted three categories of clients as proxies for de facto strategic clients. This de facto classification is not definitive, and IFC may also consider clients outside of these three categories as strategic. The three client categories are not mutually exclusive.

- Repeat client groups with whom IFC has undertaken two or more investments during the FY04–16 period covered by this evaluation (ex post strategic clients)
- Client groups that IFC has, since FY06, identified as potential long-term partners ex ante at the time of project approval, mainly based on the expectation that the project will build a relationship with the client that will lead to subsequent interventions
- Client groups for which IFC appointed client service leaders in FY15, with the specific role of building long-term relationships with strategic clients

This evaluation focuses its analysis on the first two categories, while offering observations on the third—more recently adopted—category where appropriate. In this paper, *strategic clients* refer to the first two categories of de facto strategic clients as defined by IEG unless otherwise stated.

Figure 2.2. Three Different, Overlapping Categories of De Facto Strategic Clients



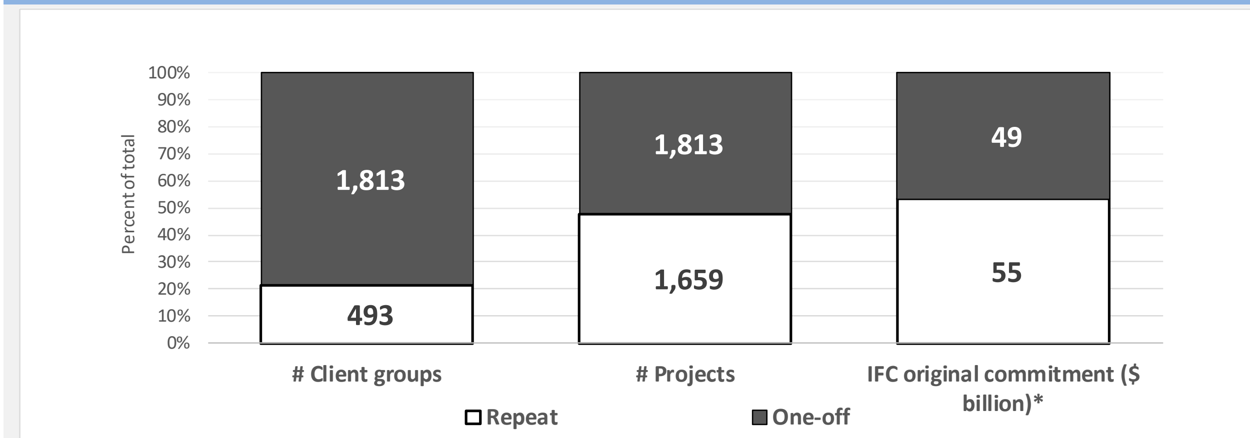
Note: Category 3, 76 client groups - This is a subset of client groups covered by the Client Service Leaders (260 client groups).[3]

Figure 2.2 illustrates the distribution of IFC client groups among the three strategic client categories. Out of 2,306 client groups IFC has supported during FY04–16, 21 percent (493) are repeat clients. Seventeen percent (390) are identified as potential long-term partners. Finally, about 3 percent (76) are covered by client service leaders. These criteria overlap—about 31 percent of IFC client groups meet at least one criterion, and 1 percent (21) meet all three. The following characteristics emerge for these broad categories of strategic clients.

Repeat clients drive the number of IFC's projects and commitment volumes. They account for approximately half of IFC's projects (48 percent) and commitment volume (53 percent)—representing an important source for IFC's business volume and potential development impact (figure 2.3). However, over the past decade, IFC has reduced its reliance on repeat client groups while increasing its engagement with new, one-off clients. Commitments to repeat clients have fallen from a peak during the 2008–09 global financial crisis, when such commitments reached over 60 percent of IFC's total, to well below 50 percent in FY15 and FY16. Although the number of total IFC client groups has remained relatively stable since FY08, the number of one-off clients has increased.

Investments by long-term partners have increased since the concept was first introduced by IFC in FY06. The number of projects by such partners and the share of commitments of such partners has accounted for between 20 percent and 25 percent of IFC's totals during FY12–16.

Figure 2.3. Investments and Commitments for Repeat versus One-Off Clients



Note: * excluding short-term financing.

The three categories of strategic clients have some distinguishing characteristics. Repeat clients feature on average larger commitment volumes compared with IFC's average. These clients have a higher share of investments in higher-risk countries. Regionally, repeat clients are more concentrated in the Europe and Central Asia Region. They engage more IFC instruments (such as equity, loans, quasi-equity) than one-off clients; however, equity investments account for a higher share of one-off investments.

All strategic client categories have a much higher share of investments in the FIG than IFC's average—pointing to the possible higher relevance of the client engagement model to this industry. The share of commitments dedicated to strategic priorities such as IDA-eligible countries or FCS countries by repeat clients and those identified as potential long-term partners overall was comparable to IFC's average.

Projects by all three strategic client categories have experienced better management quality, profit margin, and corporate governance compared with IFC's average. This suggests that strategic clients were on average selected from the better managed and more sophisticated clients, rather than from clients that may need more support and capacity building to meet IFC's policies and standards. All strategic client categories have a lower share of greenfield (versus expansion) investments compared with IFC's average.

About half of clients identified ex ante by IFC as potential long-term clients result in repeat, long-term relationships. Although these clients were identified based mainly on the expectation of repeat investments, many end up as one-off clients. As discussed in Box 2.1, about half of client groups identified ex ante as long-term partners have returned to IFC for repeat engagements.

Box 2.1. Clients Flagged as Long-Term Partners Often Remain One-Off Clients

Since FY06, the International Finance Corporation (IFC) has flagged first-time clients for long-term partnership additionality when IFC is expecting the project to build a relationship with the client leading to subsequent interventions. However, based on an analysis of IFC's client group database, only about half (191) of the client groups flagged as long-term partners (390) during the FY06–16 time frame of this evaluation have become repeat clients. Why did so many clients flagged as long-term partners remain one-off clients?

To research this question, IEG undertook a desk review of all 15 evaluated projects with first-time clients flagged ex ante as long-term partners. The review found the following:

- In one-third of cases, the project documents indicate that IFC had been involved with other projects of this client group—that is, these were not one-off clients—suggesting that the frequency of repeat engagements with client groups flagged as long-term partners is higher than suggested by IFC's database.[a]
- In a second third, the project was successful and a larger enterprise group that did not need IFC funding took over the client.
- In the final third of cases, the market had turned against the project and the client was not able to undertake another project, or the clients' performance itself had become an issue and they were no longer interested in working with IFC.

Note: a. These findings are consistent with those of an internal World Bank review, which concluded that IFC's management of client group hierarchies may be incomplete and inaccurate, which could prevent or limit IFC's ability to capitalize on business opportunities and understand the clients' activities.

Little evidence points to strategic clients receiving different treatment compared with one-off clients in pricing, types of instrument deployed, monitoring of effects, or aftercare (see box 2.2).

Box 2.2. Differences in Treatment of Strategic Clients versus Nonstrategic Clients

IEG's case studies and interviews indicate that IFC does not differentiate its pricing, risk management and headroom, due diligence, and deployment of instruments due to the strategic standing of a client, but rather bases these decisions on the characteristics of the projects and the country.

In the 2004 *Strategic Directions* paper (IFC 2004), IFC expected it would target certain strategic clients as long-term partners by supporting them with dedicated client relationship teams to provide them with specialized local knowledge and contacts, assist with regulatory issues and mitigation of political risk, provide guidance with environmental and social standards, enhance credibility with other investors and host governments, and improved access to IFC and World Bank Group global knowledge and resources

Dedicated client relationship function: IFC appointed dedicated relationship managers or client service leaders for a subset of strategic clients. However, most clients in the sample of case studies reviewed by the Independent Evaluation Group involved a client focal point or relationship manager on the IFC side who was not a dedicated resource and had other functions. The evaluation thus did not find any systematic pattern of using one modality of relationship management for the strategic clients in the sample.

Access to Advisory Services (AS): The share of strategic clients receiving AS is broadly similar to IFC's overall deployment of AS to clients. Only a few of the sample strategic client engagements had been prepared with or were anticipating the support of IFC AS. The frequency was highest in the manufacturing, agriculture, and services cluster, where AS support tended to focus on the adoption of sustainable production practices. In the financial institutions group cluster, most of the AS focused on building the client's local staff capacity for small and medium enterprises and microfinance lending. In the infrastructure cluster, the AS covered both regulatory and governance issues.

Access to World Bank or Multilateral Investment Guarantee Agency (MIGA) instruments: Only a few cases of the sample strategic client engagements followed on or were implemented in conjunction with World Bank or MIGA operations. This was most frequent in power sector engagements, in which private investments and privatization projects required close collaboration with parallel public infrastructure and broader sector reform initiatives, and for which the World Bank traditionally takes a lead role. Infrastructure and technology (information and communication technology) projects also often relied on the World Bank's addressing host country regulatory issues through technical assistance and advisory activities. Finally, a couple of the manufacturing, agriculture, and services engagements were coordinated with the MIGA's provision of political risk insurance.

[1] Client groups are defined as all companies that are either (i) majority owned by the same parent company or (ii) controlled by the same parent company. Majority ownership is equal to 50 percent +1 shares of total voting shares in the entity.

[2] The three databases are iPortal Relationship Module, iPortal Client Group Module, and Client Relationship Management.

[3] Client Service Leaders cover 260 client groups, out of which 76 client groups had financial exposure monitored at the group level during the FY04-16 period.

3. Effects on Clients and IFC's Development Impact

Highlights

- IFC has become more client focused, as evidenced by better understanding of client needs, better access to decision makers, and better work quality.
- IFC engagement with strategic clients is associated with better development outcomes in business performance, economic sustainability, and private sector development impacts compared with one-off clients; for environmental and social effects, the performance was about the same. These results were replicated in projects in higher risk areas of strategic importance such as investments in IDA countries.
- The better performance of strategic client projects, compared with IFC's one-off clients, is mainly due to the inherent characteristics of the client rather than to IFC's involvement.
- Based on the sample case studies, IFC has had a positive effect on its strategic clients' access to new markets and sectors. However, in most these cases, the client had already been preparing to enter the new country or market prior to engaging with IFC, and mainly approached IFC as the lender of last resort and provider of comfort to other lenders, investors, and stakeholders.
- Little evidence indicates IFC's ability to influence the clients' poverty focus orientation. Rather, IFC's poverty focus becomes effective mainly through IFC's support to social enterprises that already have a poverty focus, its support for clients' expansion into previously unattended or underserved areas, and its support for clients' corporate social responsibility programs.
- Key objectives of IFC's approach to client engagement have not been achieved. IFC has not seen a sustained increased in quality business, and growth in strategic priority areas has not been driven by strategic clients.
- For many strategic clients, alternative financiers are increasingly becoming competitive with IFC's offering—pointing to a growing tension between IFC's desire to develop long-term relationships and clients' desire to graduate from engagement with IFC.
- IFC achieved some efficiency gains with strategic clients, most notably in the financial intermediary group. However, expectations of a major shift in business efficiency may have been unrealistic given the move into higher-risk markets and countries.

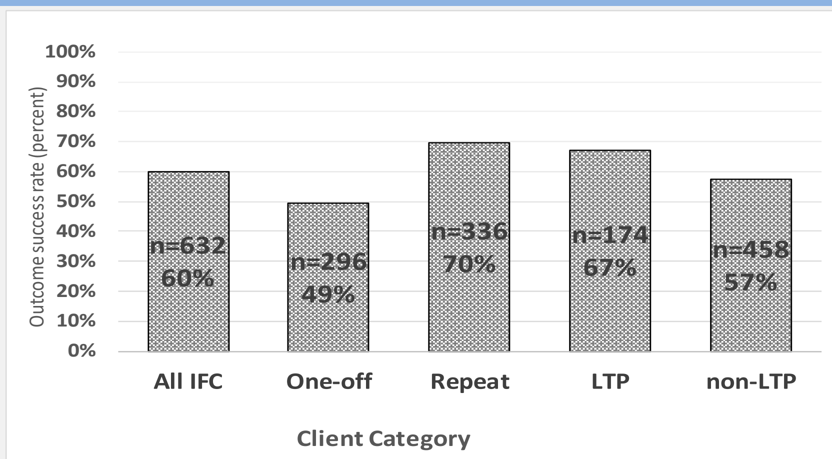
IFC expected the strategic approach to client engagement to yield enhanced development impacts through increased and better-quality IFC business in strategic priority areas (such as IDA, FCS, and priority sectors). Anticipated results included improved strategic clients' development outcomes, economic and financial sustainability via better-designed and -structured projects, enhanced access to new markets, and a strengthened focus on the bottom of the pyramid and poverty reduction. IFC envisioned that higher client satisfaction would accompany the better outcomes. These clients' better outcomes were to be delivered through the enhanced services to strategic clients resulting from IFC's internal behavioral changes: deeper understanding of client needs and objectives;

improved access to key client decision makers; greater upstream involvement with the identification, design and structuring of client investments; and improved work quality, business efficiency, and understanding of the projects' development impacts.

Effects on Strategic Clients' Development Outcomes

Projects by strategic clients have strong development outcome ratings. IEG's evaluation database indicates strong outcome ratings for categories of strategic clients, as defined by IEG, including repeat clients (70 percent of projects rated mostly successful or better) and for clients identified as potential long-term partners (67 percent) compared with IFC's average (60 percent) for projects committed during FY04–16 and evaluated between 2008 and 2016.[1] These results indicate a strong association between IFC investments with strategic clients and positive development outcomes. By contrast, one-off client projects performed much worse than IFC's average.

Figure 3.1. Development Outcome Ratings for Different Categories of Clients



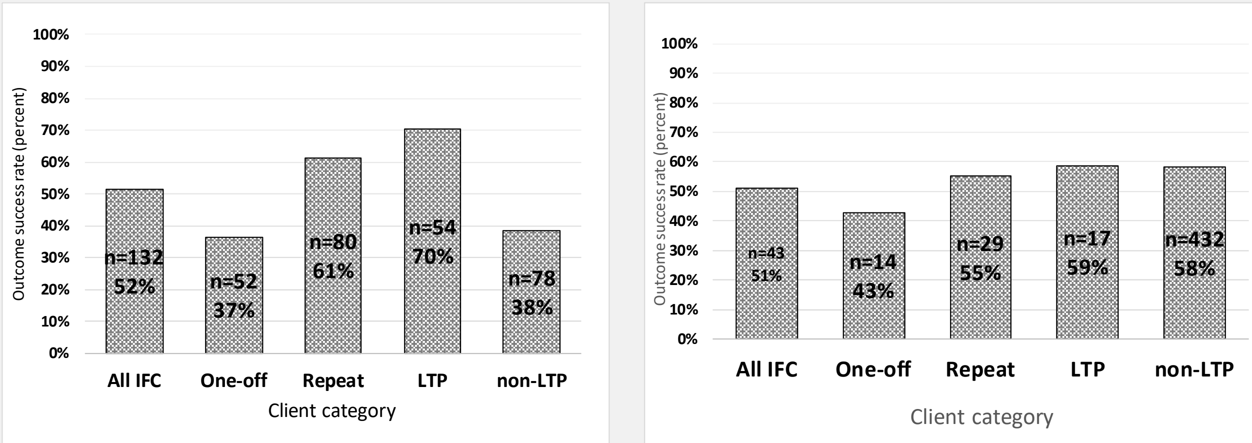
Note: LTP = client groups identified as potential long-term partners by IFC ex ante (these can result in both one-off and repeat client relationships); n = number of observations.

Strategic clients also tend to perform better than one-off clients in more difficult country contexts. As figure 3.2 shows, the positive association was found in projects in higher-risk environments such as IDA-eligible countries (61 percent versus an IFC average of 52 percent) and—to some extent—in FCS countries. This pattern indicates that IFC is more likely to achieve positive development outcomes in higher-risk strategic priority areas when working through strategic clients as sponsors than working with one-off clients.

The strong performance of strategic client projects is reflected across all dimensions of development outcome (project business success, economic sustainability, broader effects on markets or private sector development) except environmental and social (E&S) effects, for which it was the same as for one-off clients.

Figure 3.2. Strategic versus One-Off Client Projects

In International Development Association Countries | In Fragile and Conflict-Affected States

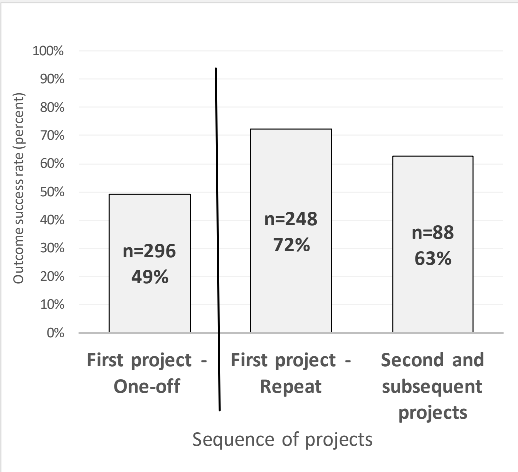


Note: LTP = client groups identified as potential long-term partners by IFC ex ante (these can result in both one-off and repeat client relationships); n = number of observations.

This performance pattern reflects a selection effect rather than the effects of the strategic clients' learning through repeat projects. As noted in chapter 2, limited evidence is available that strategic clients receive a different treatment by IFC when compared with one-off clients in terms of its pricing, risk management, and type of instruments deployed. On the other hand, evidence and interviews point to IFC's selection of clients with a demonstrated capacity to implement projects successfully and follow IFC's policies and guidelines. Thus, the first (evaluated) projects of (future) repeat clients perform significantly better than those of one-off clients: 49 percent versus 72 percent, respectively, as shown in Figure 3.3.

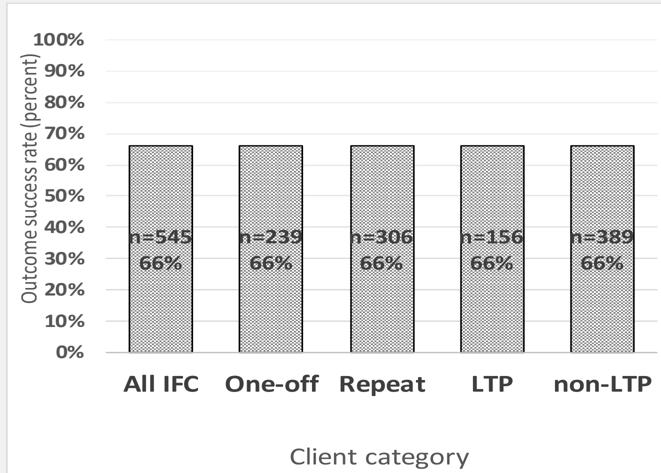
An econometric analysis carried out for this evaluation confirmed the relative importance of client selection versus learning. Specifically, IEG undertook two econometric tests to explore whether the better performance experienced by strategic clients is due to characteristics inherent in the client—that is, client selection—or due to the strengthening of client capacity through their involvement with IFC in repeat projects—that is, client learning. Both tests concluded that client characteristics (selection) are strongly related to project outcomes, whereas repeat investments (learning) is only weakly related or not significant. This suggests that selection matters more than learning (see appendix D).

Figure 3.3. Performance of First Projects for Strategic versus One-Off Clients



Note: The first evaluated projects of repeat clients had a 72 percent success rate, compared with 49 percent for one-off clients' projects. n = number of observations.

Figure 3.4. The Environmental and Social Performance of Strategic versus One-Off Clients



Note: LTP = client groups identified as potential long-term partners by IFC ex ante (these can result in both one-off and repeat client relationships); n = number of observations.

CLIENTS' FINANCIAL RESULTS

IFC's work with strategic clients made a positive contribution to their financial results. Repeat client projects have business success ratings of mostly satisfactory or better in 59 percent of cases compared with 43 percent for one-off clients. Evidence from the in-depth case studies supports this conclusion. Over three-quarters of projects made at least modest positive contributions to the clients' business success, that is, their financial results met or exceeded performance targets. These results were achieved directly, in terms of the specific investments' performance, and indirectly, such as when IFC's presence and stamp of approval helped clients obtain additional finance from other lenders or refinance local debt with lower pricing.

Such effects of IFC's engagement—at times supported with complementary business AS—appear to have been relatively greater and more evident with the smaller clients—such as those expanding from local to regional markets—in comparison with the effects on the larger client groups, which had less need of IFC to achieve business results.

PRIVATE SECTOR DEVELOPMENT

Positive effects are evident on private sector development in about three-quarters of sample strategic client engagement cases. This finding is consistent with the overall share of IFC's portfolio assessed as performing successfully for their private sector development impacts (79 percent of strategic client projects rated mostly successful or higher compared with 60 percent for one-off clients). Almost all infrastructure, telecommunications, and financial markets client projects in the case study sample had a positive impact, if only by introducing or extending the reach and quality of services—power, telecoms, logistics, finance—to previously underserved markets, thus improving the operating efficiency of local businesses and industries, and facilitating the establishment of new ones. They also had demonstration effects to other private investors. In several infrastructure and telecommunications investments, IFC also helped address regulatory issues and establish or restore market confidence in the host government's commitments to market reform and increased competition, such as in investments by AES Corporation and Millicom. In some instances, related to the power sector, such initial gains were subsequently compromised by regulatory changes or reversals, which also affected the sustainability of the projects.

ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

The performance of strategic clients in E&S effects is about the same as that of one-off clients. As shown in figure 3.4, strategic and one-off client projects are rated successfully in two-thirds of cases. The review of sampled strategic client cases found a positive effect on the client's E&S sustainability at the project level in about half of the cases. Positive outcomes tended to be associated with IFC's active engagement in this area, both at the project design stage and during supervision. In a few cases where the host country's regulations were weak, IFC's involvement helped the country adopt more exacting environmental standards or successfully convinced the client to adopt its standards as a prototype for industrywide implementation. These findings are consistent with those in IEG's evaluative database, which indicate that, on average, two-thirds of IFC projects meet IFC's E&S requirements at evaluation. The lack of differential effect on repeat clients (compared with one-off clients) suggests that IFC has limited effect on client capacity regarding E&S beyond the individual projects.

In about a third of sampled case study cases, the client engagements were associated with E&S improvements for the host countries, beyond the mitigation of the direct impacts of the project itself. For example,

- Prior to the Pamir Energy Project, supported through the Aga Khan Fund for Economic Development (AKFED), 70 percent of the tree cover in the eastern part of Tajikistan had been lost to firewood collection, mainly for heating during the winter. Indoor pollution was acute, the natural resource base was being degraded, and economic activity was stifled. These effects have been effectively addressed through the availability of reliable, affordable electricity supplied by the project.
- The Kavarna wind power project, sponsored by AES Corporation, prepared the first in-country assessment and monitoring system in Bulgaria for bird migration and bird collision risks, which enabled the country to comply with European Union directives, prove that the project had no negative effects, and adopt more exacting environmental standards.

- Through an advisory project that included the Indorama Corporation—an Indonesian manufacturing company and strategic client—IFC initiated a social program in Uzbekistan to help farmers with the implementation of responsible cotton production principles, including addressing the very important issue of forced or child labor.
- The ACLEDA Bank Lao project focused on female clients, which account for 60 percent of depositors and 49 percent of total borrowers.

ACCESS TO NEW MARKETS OR SECTORS

No portfolio data is available on the extent to which IFC helped the client enter new countries or sectors, but based on the sample review, IFC had a positive role in about two-thirds of cases. In these cases, IFC facilitated access to new markets through the provision of needed finance and providing comfort to the client and other lenders and investors by mitigating political and country risks, especially important where the project was the first one in the country and the sector. Thus, IFC supported Indorama in its expansion to new countries and sectors. IFC's involvement also helped signal important messages to host governments about the role of private investment and overcome doubtful or hostile attitudes.

However, IFC had limited influence on the client's choice of market or country, as the clients approached IFC for support of their preexisting expansion plans and strategies. The sample review also found a few cases in which, as the clients grew and matured in financial strength and stability over time, they gradually found ways to meet their financing needs from more diverse and lower cost sources such as other development finance institutions, commercial banks, or bond issuance, thereby reducing their reliance on IFC financing.

CLIENTS' POVERTY FOCUS

In several of IEG's sample cases, IFC supported a bottom-of-the-pyramid focus with a strategic client. The most evident ones involved IFC's support for social enterprises that already had a bottom-of-the-pyramid or poverty orientation prior to engaging with IFC. In such cases, IFC played a critical role by enabling these clients to grow and expand their services into markets—such as microfinance, small and medium enterprises (SMEs) lending, integrating farmers into supply chains and power supply. For example, ECOM's business model focuses on supporting local farmers by enhancing their skills and practices to help improve their income.

In other cases, the client had no poverty focus per se, but similar contributions were achieved through IFC's support for the design and implementation of the clients' corporate social responsibility programs, or simply through its financing of the client's extension of services to previously unattended or underserved areas. Such projects are often in rural areas, where they can be inferred to have reached poorer populations, especially in IDA countries, such as in the cases of Rabobank or Digicel. On the other hand, IEG's review also found a few cases of unintended consequences when projects drifted away from base of pyramid-friendly features to minimize foreign exchange risks and achieve financial targets.

CLIENT SATISFACTION

IFC client surveys do not reveal major differences in the perception of strategic and one-off clients. Surveys from 2008 to 2016 rank the professionalism of IFC staff, timeliness, and speed of processing as the most important areas. IFC is rated relatively low in terms of timeliness, flexibility, and speed of response. In the latter three categories, strategic clients rated IFC's performance somewhat better compared with the average of all respondents.

The sample case study clients appreciated IFC's expertise, flexibility, professionalism, perceived stamp of approval with shareholders and host governments, and ability to provide longer-term financing. In terms of weaknesses, sample case study clients have identified IFC's lengthy approval process, reporting requirements, rigidity with respect to financing ratios, turnaround time, and excessive bureaucracy and delays. In some cases, the client's prepayment and refinancing of projects suggest that they mainly view IFC as a lender of last resort, in the absence of alternative, lower cost financing.

For repeat clients, survey responses show IFC's value addition is eroded by alternative competing financiers (Appendix E). In areas viewed by clients as critical, IFC was rated higher than alternative providers, but repeat clients see IFC advantage as shrinking over time, compared with one-off clients. In short, for repeat clients, alternatives are increasingly becoming competitive with IFC's offering—indicating a possible tension between IFC's desire to develop long-term relationships and clients' desire to graduate from the engagement with IFC. For repeat clients, the areas with the largest deterioration of IFC's performance versus the main alternative include during 2011 to 2016: global knowledge, technical expertise of IFC staff, professionalism of IFC staff and financial structuring and innovation. Areas where repeat clients' perceptions about IFC's performance relative to the alternative improved the most over this period include climate change mitigation input, government relationships (access to governments), being part of the World Bank Group, and E&S inputs.

Effects on the International Finance Corporation's Behavior, Investment Growth, and Development Impacts

As noted above, IFC's enhanced development impacts were expected to be achieved through its strategic clients' improved outcomes. These were to result from IFC-internal behavioral changes—deeper understanding of client needs and objectives, improved access to key client decision makers, greater upstream involvement with the identification, design, and structuring of client investments—as well as improved work quality, business efficiency, and understanding of the projects' development impacts.

CHANGES IN BEHAVIOR

Overall, strategic client engagements had a tangible effect on IFC's behavior—enhancing IFC's client focus, helping IFC gain a deeper understanding of client objectives and needs and, in some cases, improved or helped maintain access to key decision makers. In well over half of the sample client cases reviewed, evidence complemented with interviews of IFC clients and staff suggested that IFC gained a deeper understanding of client objectives and needs. Usually, successive projects document IFC's growing knowledge of, and comfort with, the clients' management quality, integrity, and reliability. In about a third of cases, however, the interaction between IFC and the clients is repetitive with no indication of a deepening of the partnership.

The appointment of client service leaders since FY14 appears to be appreciated by clients as a step in the right direction for having a consistent point of contact and interlocutor in IFC, though clients also noted the limited scope of accountabilities of the client leaders and the importance of the right fit in terms of seniority and relationship skills. This feedback is consistent with IEG's benchmarking exercise (see chapter 2).

Less evidence was found, however, on IFC's involvement in the clients' upstream planning of future projects. Although many clients keep IFC informed about their expansion strategies and plans, less evidence exists of IFC's involvement in the upstream planning of future client projects. In most sample cases, the client had approached IFC with the proposed project or pipeline of projects, having already been familiar with IFC's mandate and priorities. It is mainly in the FIG cluster that the project documents provide clear indications of IFC's involvement in planning of the client's preparations for launching new lines of business and their move into new markets.

Closer engagement with clients may also create opportunities for conflicts of interest, an aspect that needs to be managed carefully, given associated reputational risks for IFC. In one sample case, a senior member of IFC's management team assumed a leadership position with the client, which is contrary to IFC's policy and illustrative of the risks and gaps that exists in IFC's safeguards in this respect.

WORK QUALITY

IFC's upfront project work quality was better for strategic clients, but the link with the strategic client engagement model is not clear (figure 3.5). Strategic client projects involved stronger ex ante work quality (65 percent success rate for evaluated projects' upfront work quality ratings) compared with one-off clients (52 percent). IFC's project screening, structuring, and appraisal appear mainly focused on delivering a feasible project while managing risks—providing an upside while protecting IFC's downside—with more attention given to high-exposure clients and those reaching exposure limits. In several cases with strategic clients, IFC provided valuable inputs for the project's technical design and compliance with E&S requirements (box 3.1). On the other hand, IEG also rated a few sample cases projects partially unsatisfactory, due to shortcomings such as inadequate assessment of risks and incorrect E&S classification of specific projects, which impaired downstream supervision.

Figure 3.5. Quality of Screening, Appraisal, and Structuring in Strategic Clients' Projects

Note: LTP = client groups identified as potential long-term partners by IFC ex ante (these can result in both one-off and repeat client relationships); n = number of observations.

Box 3.1. Upfront Project Work Quality in Repeat Clients

The case studies suggest that engagement by the International Finance Institution (IFC) with strategic clients had a positive influence on the design and structuring of projects in two-thirds of cases, where IFC assisted the clients with a more efficient and sustainable capital structure, often with complementary foreign exchange risk mitigation and appropriate risk sharing arrangements. In more complex situations, such as those faced by several infrastructure projects, IFC assisted with the development of a public-private partnership concession framework around which a private investment could be built and arranged for donor subsidies to ensure that the tariff would be affordable to end users.

For example, for the Bujagali Hydropower Project II, the most complex and controversial in the sample, sponsored by a repeat client, the Aga Khan Fund for Economic Development, IFC structured the financing package with A and C loans with 16- and 20-year maturity, respectively, among the longest term provided by IFC to ensure the long-term sustainability of the project with a more affordable tariff.[a] In addition, an International Development Association partial risk guarantee allowed the project to raise 16-year loans from commercial banks.

Note: a. The long-term tenor of the IFC loans was intended to match as much as possible the term of the power purchasing agreement. This lowers the overall cost of capital and therefore the price of the electricity supplied.

IEG's ratings of the quality of supervision and administration indicate broadly similar performance of strategic and one-off clients. The case studies of strategic clients found that, in general, IFC kept itself sufficiently informed and involved to react in a timely manner to material changes in the projects and to evolving changes in the focus of the relationships as clients mature. In several cases, the documents suggest that IFC's staff decentralization strategy, with relationships managers and portfolio teams located in the Regions near the clients, had a positive impact on the quality of supervision.

INVESTMENT GROWTH IN STRATEGIC PRIORITY AREAS

The focus on strategic clients has contributed to an increase in IFC's business volume in priority areas but has not driven its associated growth. Over the FY04–16 period IFC has increased its business volume in key strategic areas, including to IDA-eligible countries, FCS, infrastructure, and investments in social sectors (health and education). But this expansion of the portfolio in all IFC strategic priority areas was driven by one-off clients, as shown in figures 3.6 and 3.7. This highlights the importance of IFC's continuing identification of new clients to drive its expansion in strategic priority areas.

Figure 3.6. Business Volume in IDA-Eligible and FCS Countries

a. IDA b. FCS

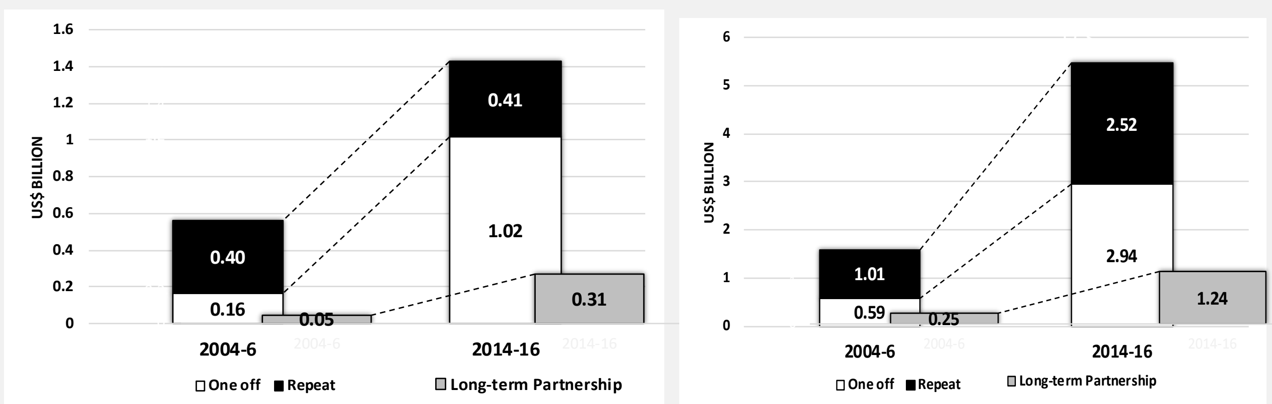
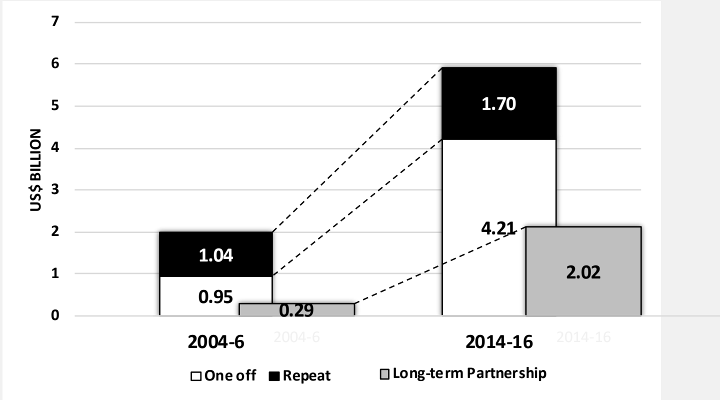


Figure 3.7. Business Volume in Infrastructure



Effects on Business Efficiency

Part of the rationale for the 2007 client strategic engagement model and its successive iterations was to provide better service to clients who saw IFC as too slow and bureaucratic—with an average processing time of 500 days for new clients and 300 days for existing clients. Nevertheless, a decade later, as reported in the annual client surveys, clients still perceive too much bureaucracy and delays as major weaknesses of IFC, and average processing times are still around 400 days, as shown on table 3.1.

In general, the strategic approach to clients has had modest effects on IFC's response times and streamlined procedures. The main reason is that notwithstanding the enhanced focus on clients, in practice IFC pursues a project-by-project approach, which involves separate screening, appraisal, and structuring of each project under a client relationship. This is prudent given that projects are often in different countries, and possibly different sectors, and so need to be assessed and processed based on their own merits.

Table 3.1. Processing Times for Repeat and One-Off Client Projects

Client	Average days between Mandate and first disbursement	Average days between commitment and first disbursement	Number of projects
One-off clients	414	136	1,813
Telecom, Media, Technology & Venture	330	105	348
Financial Markets	422	131	412
Infrastructure	463	158	419
Manufacturing, Agribusiness & Services	433	147	634
Repeat clients	374	119	1,659
Telecom, Media, Technology & Venture	383	106	71
Financial Markets	342	98	767
Infrastructure	450	136	274
Manufacturing, Agribusiness & Services	380	141	547
IFC average	395	128	3,472

Note: Efficiency is measured by using International Finance Corporation standard indicators: the average number of days between mandate date or letter and first disbursement; and commitment to disbursement date.

Projects with strategic clients show some efficiency gains in processing times. There are some indications, mainly from the Financial Markets cluster that over time, as IFC had becomes familiar with the sponsor's business model and the broadly similar financing structure used in each case, the processing becomes faster compared with one-off clients. Staff interviews also indicate that being more familiar with clients also enabled IFC to shorten time required for certain aspects of project appraisal, particularly related to client due diligence. The sample review found one case, in the infrastructure cluster, in which IFC's speedy processing capacity built on the experience in similar earlier deals in the same country and sector was cited as crucial for the project's successful financial closing. No other lenders were expected to be able to meet the extremely compressed timetable requested by the client.

Effects on Understanding of Clients' Development Impacts

IEG did not find evidence of a major initiative by IFC to improve its understanding of its strategic clients' development impacts. IFC's standard results framework has mainly focused on the operating companies' results and supply-side measures of impact (for example, energy generation, lending volume), so that in most cases, the actual effect on beneficiaries (for example, jobs creation, poverty reduction) can only be inferred. The sample review of strategic clients found only three instances where follow-on studies were carried out to deepen the understanding of a project's development impact. Box 3.2 provides an illustration about how much more can be learned about IFC's developmental impacts through a more systematic tracking and follow-up studies.

Box 3.2. Learning from Beneficiary Surveys

Since 2009, IFC has engaged with Laureate Education Inc., a US-based globally diversified private tertiary education provider, in a long-term client engagement through several investments, mostly in Latin America. The company is focused on the delivery of higher education, especially programs with significant relevance for local job markets. Laureate has invested in a network of 58 institutions in 24 countries, with 85 percent of its enrollment in developing countries. It has been clearly identified as a strategic client in IFC's global education practice, in line with its alignment with IFC's vision for the role of education in supporting development.

In 2014, Laureate requested IFC assistance in designing and conducting a rigorous evaluation of the effects of its investments in two of its private universities in Mexico City. The purpose was to assess the performance of graduates from Laureate-invested universities in the labor market and their social mobility, compared with their peers from other universities. The impact assessment was based on comparing survey data from treatment and control group individuals, carefully matched by pretreatment observable variables such as gender, age, year of enrollment, household socioeconomic status, parent's educational background, employment status before a student's enrollment, and high school type.

The study concluded with the identification of significant positive impacts:

- Employability: Laureate graduates spent less time searching for their first job after graduation than their counterparts in other private and public universities.
- Income: More graduates from Laureate universities have incomes higher than their counterparts.
- Career advancement: More Laureate graduates were recently promoted and were likely to hold management positions than professionals in the control group.
- Social mobility: More Laureate graduates have moved upward from their previous socioeconomic status (relative to their family background).

From this assessment, the client gained valuable information that it used to improve its services and to better communicate with its stakeholders. The study also provided IFC with the first solid evidence on the impacts generated by its investments in private sector education. Prior to conducting this evaluation, IFC could only report on supply-side measures, such as the number of students reached by Laureate, as a proxy for development impact. Following this study, IFC could validate its strategy that investing in private sector education can in fact contribute to World Bank Group goals.

Source: C230 Consultores 2015.

Effects on Development Impact

A key mechanism for IFC's transmittal of development impact through its clients' projects is the demonstration effect. The greatest impacts appear to have occurred through demonstration effects, where the viability of a pioneering project in a new or thinly serviced market provides a strong positive signal for attracting other investors and lenders and, in a few cases, increasing competition with established monopolies and state-owned enterprises. The ACLEDA Bank case illustrates this finding: the bank established new lending services for women and SMEs in Cambodia before expanding its business model and service offerings regionally. Its performance stimulated more institutions to offer microfinance services in Cambodia.

A second transmittal mechanism for development impact is the "debottlenecking effect": IFC-supported investments address an important developmental constraint—such as a shortage of energy, finance, or other importance services or products—to previously unattended or underserved sectors, areas or populations, such as SMEs and microfinance. Thus, for example, IFC's investment in the Sokhna Port project in the Arab Republic of Egypt—later acquired by Dubai World Ports—introduced a new fully automated processing system for vessels, customs clearance, and container handling and dispatching, which not only increased efficiency and competitiveness with respect to existing ports, but also encouraged the development and helped attract investments to the adjacent Suez special economic zone. Another good illustration is Indorama's investment in Nigeria (in Eleme), for which the debottlenecking impact has been clearly documented through its effect on job creation, as described in box 3.3.

Box 3.3. Direct, Indirect, and Informal Job Creation Effects

The Eleme Petrochemicals Company was a state-owned polyolefin producer in Nigeria that went bankrupt and ceased operations in 2005. In 2006, IFC financed the acquisition and rehabilitation of the plant by Indorama, an Indonesia-based industrial conglomerate which had been an IFC client since 1991.

As of 2012, the project had successfully restored the plant to profitability and full capacity utilization, taking advantage of its strategic positioning near Nigeria's oil fields and a vast underused downstream capacity in the plastics sector. In terms of job creation, IFC's project evaluation report states that project was able to retain at least 600 of the original 958 workers... and continues to employ approximately 800 contractors.

In 2015, IFC funded a study of the economic impact of the Indorama Eleme project specifically designed to assess its effects on employment and the local economy. The study found that the project supported 1,580 direct formal jobs (730 staff, 850 local contractors) and had indirectly enabled the creation of about 21,100–32,100 new jobs. These jobs were in downstream industries—mostly in companies that produce a variety of plastic products ranging from film and plastic bags to storage tanks and household items—that had earlier depended on qualitatively less reliable and higher priced imported production inputs. Finally, the study references a Nigeria Bureau of Statistics estimate that every new job in the formal sector creates 1.64 jobs in the informal sector, which suggests that the project also contributed to the creation of about 39,800–57,900 jobs in the informal sector.

Altogether, the study estimated that the project had indirectly created about 13–20 times as many formal sector jobs as the direct jobs reported by IFC's standard monitoring approach, plus an additional 21–33 times as many jobs in the informal sector. The associated contributions to the country's economy are also considerable, ranging from the annual direct payroll of $17–25 million, indirect formal wage income of $112–171 million per year, dividend payments of $62 million and tax payments of $252 million, equivalent to about 0.046 percent of Nigeria's gross domestic product in 2014.

These findings provide a good illustration of how IFC could deepen its understanding of the development contribution of its operations through the implementation of follow-up impact studies.

Source: World Bank 2012.

[1] Differences in development outcome ratings of projects by high- and low-intensity client groups are statistically significant at the 5 percent confidence interval.

4. Enablers and Constraints in Strategic Client Engagements

Highlights

- Alignment of client strategic objectives with the strategic priorities of the International Finance Corporation (IFC) emerges as a key success factor in strategic client relationships.
- IFC's financial and nonfinancial additionality emerge as critical internal factors enabling clients' success and the achievement of IFC's strategic priority of moving into higher-risk markets. The need to maintain additionality over time in strategic client relationships has implications for IFC's selection and segmentation of clients.
- Among external factors, the clients' management quality and financial resilience have been drivers of satisfactory outcomes. These client characteristics helped overcome the adverse effects from the global financial crisis and country risks that emerged in the more vulnerable countries.

The Interactions of External and Internal Factors and Their Effects on Performance

Performance depends on many factors, including the interactions of external aspects, such as sponsor quality and sophistication, financial resilience, and the effects of the global financial crisis, with facets under IFC's control. Strategic clients are generally more sophisticated, have stronger management quality, and have better corporate governance than the average client. Components under IFC's control, such as additionality (IFC's unique contribution not available from other lenders or investors) and deployment of equity and other financial instruments, are more effective for the stronger and more sophisticated clients. This finding suggests that clients with better management quality may also be more receptive to IFC's products and requirements; they tend to perform and execute projects better, which in turn fosters long-term relationships and repeat transactions. Over time, and beyond a certain level of sophistication, the client may no longer need IFC services.

These major factors—IFC additionality and client quality—can be interactive, as when IFC's engagement with corporate governance plays a major role in enhancing sponsor quality. In a few sample cases, in which IFC had identified the lack of independence of the clients' board of directors as a key risk, it deployed its AS for a corporate governance assessment, and the clients acted on the recommendations. For example, IFC identified the lack of independence of the Board of Directors of Tourism Promotion Services (Pakistan), an AKFED subsidiary, as a risk as all board members, while highly qualified in their fields, were associated with the AKFED Group. IFC AS provided a governance assessment, and its recommendations were implemented ahead of the planned initial public offering of the company.

Stronger client capacity may also counteract the effect of country risks with the support of IFC's additionality. On average, IFC's strategic clients tend to have projects in somewhat higher-risk countries, as per the Institutional Investor Country Credit Risk rating. As shown in figures 3.1 and 3.2, these projects performed significantly better than similar projects with one-off clients, even though development outcome ratings in IDA and FCS for all client categories remain below IFC's average. In many of these higher-risk environments, where IFC has played a key role as lender of last resort, project outcomes were affected by local currency volatility, security risks, and adverse regulatory changes—to which infrastructure and financial markets investments were particularly sensitive. Even so, IFC's careful structuring of the financing—protecting the downside while providing an upside—and the sponsor's financial resilience ensured the sustainability of the project in most cases, albeit often with lower than expected returns.

Over half of sample client case study engagements suffered negative effects from the 2008–09 global financial crisis. The effects appear to have been most adverse in the financial markets industry group, as the crisis was associated with local currency devaluations, which caused severe financial distress to many of the clients' local borrowers, leading to significant increases in nonperforming loans. In other sectors, the global financial crisis was associated with a dampening of projects' revenue growth and sharply curtailed access to finance. In most such cases, IFC stepped in with additional financing that helped to ensure the sustainability of the projects. Evidence from the client survey results suggests that several of the sample case study clients highly appreciated IFC's ability to provide such countercyclical financing in difficult market environments.

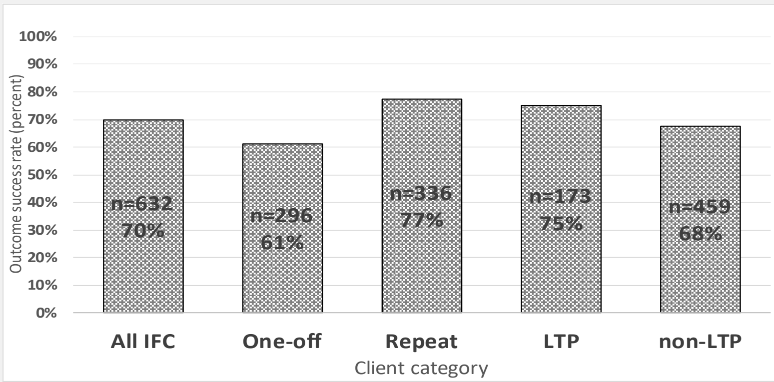
On the whole, the case studies suggest that the strategic clients' management quality and financial resilience have been the main drivers of the satisfactory outcomes experience of most sample engagements and enabled them to make effective use of IFC's additionality to overcome the adverse effects from the global financial crisis and country risks that emerged in the more vulnerable countries.

FINANCIAL AND NONFINANCIAL ADDITIONALITY AS ENABLERS OF CLIENT SUCCESS

IFC's financial and nonfinancial additionality are critical internal factors enabling IFC's contribution to a client's success. Specifically, IFC's ability to provide and mobilize long-term financing, carefully structured to meet project needs, combined with technical advice for project design, environmental and social compliance, and support (through AS for capacity building, market intelligence) for entering new, difficult markets and addressing regulatory issues (sometimes working through the World Bank) were key contributions in the reviewed client cases.

Overall, IFC's additionality in strategic client projects has been stronger than with one-off clients (figure 4.1). Among strategic clients, the success rate for IFC's ex post additionality is 77 percent compared with 61 percent for one-off client projects. This may indicate a strong alignment between such strategic clients' interests and IFC's strategic priorities. For many strategic client projects, financial structuring and market comfort were key for financial additionality; whereas new and better standards (for E&S, corporate governance) and knowledge and innovation (such as global market intelligence) were key nonfinancial additionalities. On the other hand, the strategic client case studies found little evidence of incremental additionality over consecutive operations (see Box 4.1).

Figure 4.1. Success Rates for Ex Post Additionality for Different Categories of Clients



Note: LTP = client groups identified as potential long-term partners by IFC ex ante (these can result in both one-off and repeat client relationships); n = number of observations.

Box 4.1. Additionality in Strategic Client Project Performance and Consecutive Operations

Financial and nonfinancial additionality of the International Finance Corporation (IFC) emerge as the main pathways to supporting the strategic priority of moving into higher-risk markets.

The sampled client cases experienced positive contributions from IFC's financial additionality in about three-quarters of cases, where IFC played a crucial role in ensuring that long-term funds could be provided in higher-risk, economically difficult, and politically sensitive markets where other sources of finance were not available. Typically, IFC structured those transactions to provide an upside and protect the downside, while convening and providing comfort to other lenders and investors. IEG's review found, however, no manifest evolution of the additionality over time in consecutive operations with the same client. In a few cases, refinancing and prepayment indicated clients' growing financial maturity and access to alternative and lower cost sources of funds.

About three-quarters of sample clients experienced positive contributions from IFC's nonfinancial additionality. IFC's most frequent contribution focused on the promotion and assistance for implementation of global best practices for environmental and social management and on strengthening corporate governance. Beyond such contributions, in a few cases, IFC also assisted with the identification and scoping out of new investments with detailed sector assessments, market studies, and other preparatory support. With each client, IFC delivered similar support with successive projects, with little evidence of incremental additionality over time. In a few cases, the value-added efforts delivered little or no results, at least partly because of the clients' lack of interest beyond IFC's financial contribution.

THE EVOLUTION OF ADDITIONALITY IN LONG-TERM CLIENT ENGAGEMENTS

To explore the evolution of incremental additionality during long-term relationships with strategic clients, IEG reviewed the experience of eight financial sector clients that have been longstanding IFC partners.[1] IFC has used its additionality to develop close relationships with these strategic partners which implement projects in higher-risk countries. These partners are well established, reputable, multinational in their operations, and have links to other development finance institutions and commercial financiers.

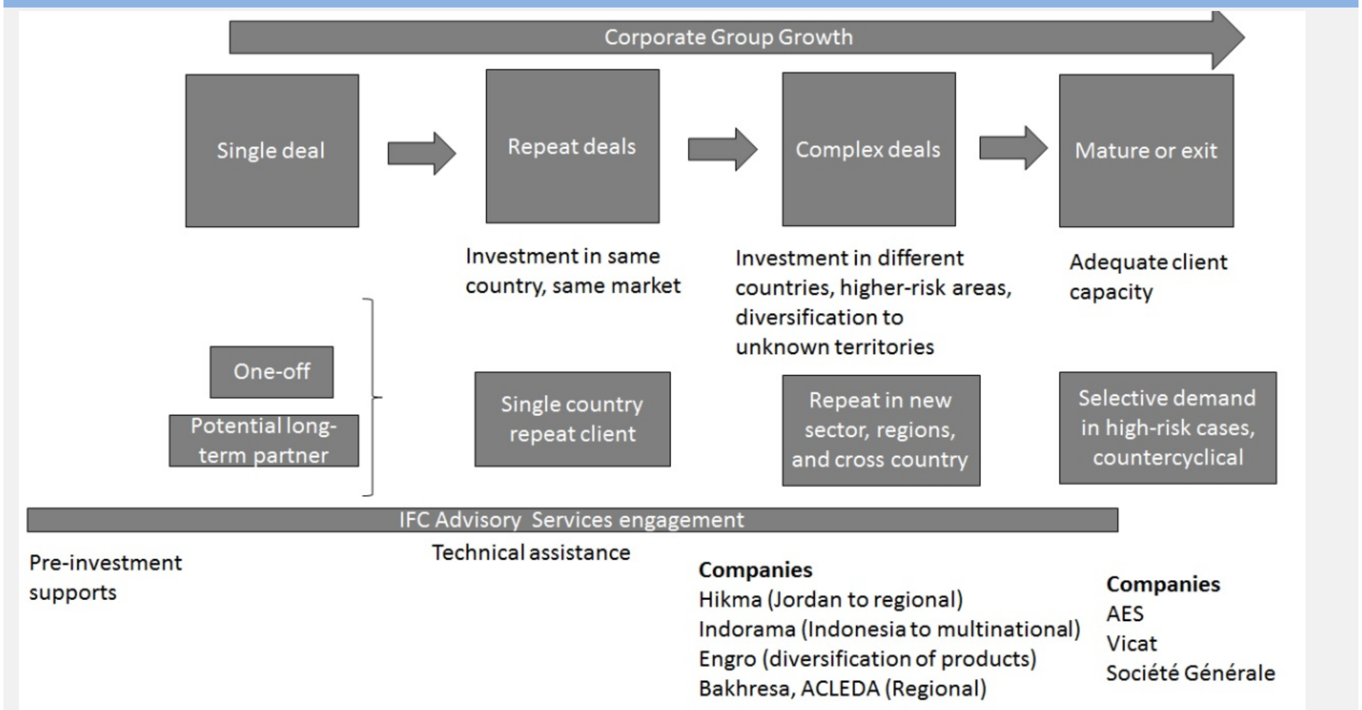
In supporting these strategic clients' move to higher-risk countries, IFC still has substantial financial additionality in mobilizing other sources of finance, but its nonfinancial additionality may be higher because its investment provides some comfort for country risk mitigation, while its emphasis on the project's adherence to IFC's E&S Performance Standards, and its concerns on high standards of corporate governance help the sustainability of the project.

At the same time, IFC's strategy has evolved to focus more on smaller developing country sponsors working in emerging markets, because projects with such strategic clients may have higher development impact and financial return and greater IFC additionality. Generally, working with strategic partners as sponsors has helped strengthen IFC's additionality and the development impact of IFC projects, as IFC with its AS and targeted investments has played a critical role in transforming small financial institutions into large financial institutions with a significant presence in other countries—as illustrated in ACLEDA Group of Cambodia and Ecobank Transnational Incorporated.

Overall, IFC's additionality in the reviewed FIG projects connected to long-term relationships with repeat investments was generally high, although when a strategic client works with more than one development finance institution, such additionality may be diluted—a challenge IFC encountered in some of the investments with Raiffeisen Bank in Central and Eastern Europe where its role was not unique or indispensable. Similarly, in repeat projects with a client over time, the financial additionality of IFC tends to decline, as the balance sheets of the clients and the financing options available to them grow substantially (for example, with the investment by AKFED in the Kyrgyz Republic, IFC's portion represented only a small fraction of the company's obligations).

The findings on the evolution of IFC's additionality and of IFC client relationships more generally have implications for IFC's strategy for selecting and supporting strategic clients. These findings can be stylized as a life cycle of client relationships, starting from a first engagement through an initial investment, followed by additional investments to support corporate growth and (in some cases) sector and geographic diversification of the client (see figure 4.2).

Figure 4.2. Client's Stage of Growth Drives Engagement Management



Explicit awareness and consideration of the different stages of a client relationship could help IFC more appropriately target its support, services, and instruments, and aid in its engagement of potential new strategic clients. Although early-stage investments tend to be highly catalytic—either supporting an investment in a new market or sector or introducing a new product—following a period of growth for the client company, financial additionality typically declines. As client cases illustrate, even as clients grow and mature, IFC retains a role in providing long-term finance in high-risk markets or sectors or during liquidity crises and in helping to structure complex projects. At the same time, aspects of nonfinancial additionality tend to become more prominent. Eventually, client relationships mature, interactions between the client and IFC becomes more infrequent, demand for IFC services wanes, and the client ends the relationship with IFC. The process of ending the strategic relationship accelerates with a lack of or decline in alignment of the strategies and objectives between the client and IFC.

When undertaking repeat projects with the same client, IFC faces the challenge of maintaining its additionality throughout the life cycle of client relationship. When IFC supports repeat investments of the same type—such as to strengthen a bank's capital base, support SME finance, and so on—it faces a higher threshold to justify the additionality of the repeat investment, and why another project is warranted where a previous project was approved supporting similar objectives.

DEPLOYMENT AND EFFECTS OF INSTRUMENTS IN STRATEGIC ENGAGEMENTS

As noted in *IFC 2010: A Client Centered Corporation* (IFC 2007), key elements of IFC's value-added to the client would include innovations beyond its traditional financing. IEG's review of sample client cases found indications of IFC's deployment of innovative instruments about one-third of the time. In several cases, clients were supported through an innovative structuring of IFC's financial support, involving unusually long and flexible terms or the arrangement of subsidies from donors. In other instances, the innovation involved AS support for the client's design and introduction of new business lines, such as gender finance, green mortgage finance, SME lending, and microfinance.

Figure 4.3. Performance of Strategic Clients' Equity Projects

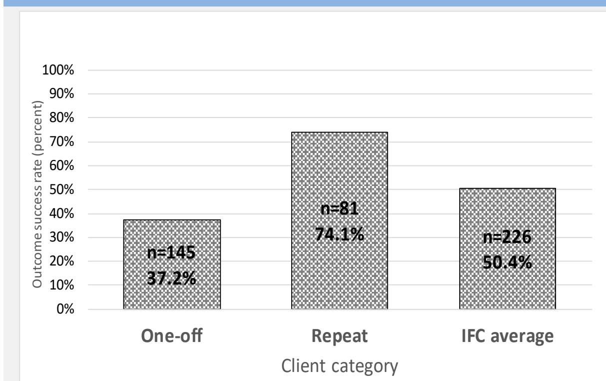
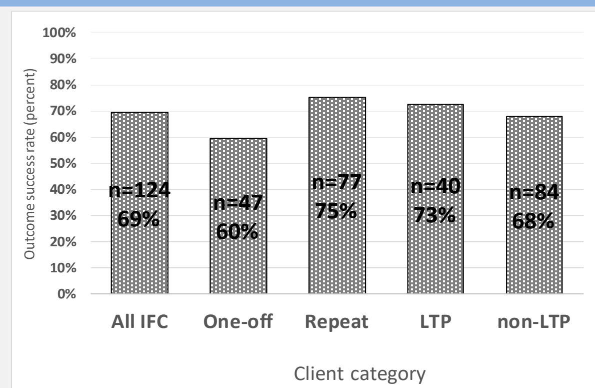


Figure 4.4. Performance of Projects with Advisory Services



Note: LTP = client groups identified as potential long-term partners by IFC ex ante (these can result in both one-off and repeat client relationships); n = number of observations.

Client engagements matter for IFC's choice of instrument. Equity investments are significantly more successful in strategic than one-off client engagements (Figure 4.3). Deploying equity together with other IFC instruments through a longer-term engagement with the same client may have contributed to better performance.

Finally, as shown in figure 4.4, it is of interest to note that the deployment of advisory services had a greater beneficial effect on the performance of strategic client projects than for IFC's one-off clients (75 percent versus 60 percent).

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[1] The review included the ACLEDA Group of Cambodia, the Aga Khan Fund for Economic Development, Ecobank Transnational Incorporated, the Rabobank Group, Raiffeisen Bank International Holding, UniCredit S.p.A., Société Générale S.A., and Standard Bank Group.

5. Client Engagement through Programmatic and Country-Level Interventions

Highlights

- The reviewed programmatic interventions are highly relevant for the strategic priorities of the International Finance Corporation (IFC) and address identified priority needs in the host countries' development strategy. However, the extent to which the reviewed programs engaged with existing clients or reached out to new ones varied widely.
- Outcomes from the reviewed programmatic interventions have been limited, indicating the challenges of moving toward upstream and market-creating initiatives envisioned by IFC 3.0. IFC initiatives in the financial sector have shown more success than in other sectors.
- The reviewed country-focused interventions—through joint World Bank Group sector plans—are still at early stages of implementation. They have shown some success but have not yet had a tangible effect on the composition of IFC country programs.
- The joint World Bank Group sector plans provided IFC with a platform for strategic, upstream client engagement and helped broaden its definition of *client*. Through these joint plans, IFC has adopted the country as the client—reaching beyond the traditional private sector project sponsors.
- IEG identified three main success factors for upstream programmatic and country-focused interventions: (i) high relevance in terms of development needs and priorities; (ii) careful design to target binding constraints; and (iii) leveraging of IFC's convening power and credibility with governments.

Client engagement activities can be sorted between the upstream and downstream stages of the project development cycle (Nassiry, Nakhooda, and Barnard 2016). The upstream stage consists of work on (i) the enabling environment, (ii) project conceptualization and definition, and (iii) project feasibility. The downstream stage covers (iv) project structuring, (v) transaction support, and (vi) post-implementation support. However, the first steps in the cycle can only be deemed as upstream work if they are connected to and followed by the next steps in the project development cycle. Thus, empirical evidence shows no automatic link between business climate reforms, and the supply of investments. This accounts to a significant extent for the lack of bankable projects in sectors of key importance for development, especially in infrastructure. The gap between the two can be bridged by upstream work, which is typically resource intensive, costly,[1] complex, and high risk (IFC 2016).

The degree to which IFC can apply a strategic approach to client engagement also depends on its ability to engage upstream in the project cycle, including through programmatic and country-focused interventions. IFC's typical approach, discussed in the preceding chapters, has been to engage with clients for the downstream stage—from identification to implementation. This engagement modality does not markedly increase the number of bankable projects—a binding constraint to investments in developing countries. The importance of this constraint is seen in IFC's own investment pattern: stagnating volumes of long-term financing, weak investment pipelines, and inability to deploy allocated funds for certain initiatives and markets. These patterns reflect primarily a shortage of bankable investment opportunities despite critical development needs to meet the Sustainable Development Goals. The pursuit of IFC's aim to expand and create markets where private capital has fallen short as part of IFC 3.0 will increasingly depend on its ability to engage in upstream activities to address this constraint.

Programmatic and other Upstream Interventions

IFC supported efforts to engage new and existing clients in upstream, market-creating interventions throughout its recent history, starting with the project development facilities used in the 1990s. Current arrangements for upstream engagement in IFC vary by (i) internal versus external; (ii) the degree of upstream engagement; and (iii) the extent to which such activities are mainstreamed.[2] Thus, Advisory Services for PPP operate in the space between structuring and feasibility. InfraVentures is more upstream—with a stronger focus on the feasibility stage. The PPP Advisory client is the government, whereas InfraVentures works with private sector clients. Other infrastructure project preparation facilities operate in the space between structuring and policy and predominantly work with governments. IFC's Corporate Finance Services group has moved farther upstream to the space of project definition, identification, and feasibility for private sector clients.

IFC also engages upstream in individual transactions as part of its mainstream business. For example, in the Bujagali Hydropower Project, IFC worked with the World Bank and multiple potential clients over a 10-year period to help bring to fruition a complex, transformational project. Many joint World Bank Group projects in Africa and the infrastructure and oil, gas, and mining sectors emphasize upstream aspects. These efforts to move upstream received new emphasis with IFC 3.0 and its focus on creating markets.

STRATEGIC RELEVANCE AND APPROACHES

In face of numerous and varied initiatives intended to develop markets upstream, this evaluation focuses on a sample of specific programmatic interventions for which there was a Board document and some evaluative evidence (a self-evaluation, independent evaluation, or one-off supervision reports) during the period under review. A quick review identified several programs meeting these criteria, including InfraVentures, Lighting Africa, Health in Africa, and Africa Micro, Small, and Medium Enterprises (MSME). These four programs, designed to expand and create markets in very different ways (see appendix B), have been selected for in-depth review.

The reviewed programmatic interventions were all intended to address identified high-priority needs in the host countries' development strategy and were highly relevant to IFC's own strategic priorities. Thus, InfraVentures was designed to address constraints to private investments in priority infrastructure sectors, especially in IDA, frontier regions and Fragile and Conflict Situations. Africa MSME was aligned with IFC's regional and global strategy to mobilize the formal financial sector to expand access to underserved groups in Africa. Lighting Africa was designed to engage the private sector to increase access to modern and affordable off-grid lighting products to the nonelectrified population, beginning with Kenya and Ghana, later expanding to other countries in Africa and in other regions. Health in Africa's objective was to increase, improve and extend the reach of financing for and the provision of health services in Africa.

The extent to which these programs engaged with existing clients or reached out to new ones varied widely. For Africa MSME, 8 of 10 investment clients are IFC repeat clients. A total of 84 banks that met its eligibility criteria were initially contacted, but the uptake was slow and the program ended up mostly with existing clients. Of InfraVentures' portfolio of 38 engagements, 42 percent of the sponsors were existing IFC clients and the rest are new, including one government sponsor (Mali). Lighting Africa, on the other hand, was specifically intended to bring lighting product manufacturers, importers, financiers, and governments together to create a market, rather than to engage with any specific client of IFC.

All the reviewed programs anticipated extensive nonfinancial additionality by IFC. For InfraVentures, IFC's local market knowledge, depth of project structuring expertise, E&S value-added support, credibility with governments, convening power, and political risk mitigation, were expected to be key attractions for potential project sponsors. With Africa MSME, IFC aimed to transfer of banking know-how from advisory firms to banks committed to serving MSME markets. With Lighting Africa, IFC expected to interest private investors in a new market by providing market intelligence, developing a quality assurance infrastructure, promoting business-to-business interactions, helping governments address policy barriers, providing business development services, and facilitating access to finance for manufacturers, local distributors, and consumers.

OUTCOMES

The limited outcomes from the reviewed programmatic interventions have highlighted the challenges of moving toward upstream and market-creating initiatives. Thus, the Health in Africa program undertook market studies and country assessments aimed at supporting health-related SMEs. These efforts experienced some success in improving investors' confidence and expanding a few private nonpublicly financed health sector operators in Africa, especially in IDA countries. The program also helped launch larger follow-on funds for Health in Africa. Most potential investments, however, were not realized or were closed without disbursement. The program also experienced some success with the implementation of social health insurance initiatives in Ghana, but only limited success in Nigeria and Kenya. Out of the 38 engagements undertaken by the InfraVentures program, only two have reached the financing stage.

The Africa MSME program, supporting upstream engagement with clients in the financial sector, was more successful. The Africa MSME Program provided the participating IFC client banks with expertise to grow their MSME business, and these investments took place in several of the poorest countries in Africa. Since it started in 2007, the program has had 24 partners across 18 countries in Africa and worked closely with other access to finance programs. Financial institutions in partnership with the program provided over $1 billion in loans to their MSME clients and helped 3,271 women entrepreneurs gain access to $27.5 million in financing.

The Lighting Africa program had a major role in catalyzing the market for quality, affordable solar lighting products in Africa by adopting a holistic approach considering clients' needs along the entire supply chain. The joint IFC-World Bank program had a broad scope, providing market intelligence, developing a quality assurance infrastructure, facilitating business-to-business interactions, helping governments address policy barriers, providing business development services, and facilitating access to finance for manufacturers, local distributors, and other stakeholders. It successfully helped create a viable market for solar lamps in Kenya: over 680,000 Lighting Africa-certified lamps were sold in Kenya, 135 percent above the Kenya program's target. Furthermore, almost 2 million lamps were reported to have been sold in other African countries—185 percent above the target. Interviews with retailers, consumers and manufacturers confirmed that Lighting Africa was a very important influence on market development, so the true effect may well have been higher. Moreover, the program has been scaled up beyond Africa (and is now called Lighting Global).

Similarly, Scaling Solar managed to achieve scale by promoting a standardized product and concessioning process. The key factors of success for this upstream initiative appear to be (i) a sector conducive to a standardized product; (ii) support along the entire project cycle—from the regulatory framework, structuring, to the individual investments including with IFC participation; (iii) operational teams being willing to take risk and do things differently to provide solutions (for instance being ready to appraise without a sponsor and have a ready term sheet for the winning bidders); (iv) providing package solutions combining World Bank Group instruments (policy advice, partial risk guarantees, MIGA guarantees) to achieve bankability; and (vi) an agile, purpose-built, cross institutional team.

Beyond programmatic interventions, project preparation facilities have been used to support upstream project development to bring projects in planning stages to fruition. In response to the infrastructure needs in developing countries (also identified by the Sustainable Development Goals and the need to move from "billions" to "trillions"), many such facilities have been established, some by IFC and the World Bank. Their performance to date has been weak, with relatively few projects reaching financial closing. Some variation is seen in performance across types of facilities and regions, with Asia achieving better results (CEPA 2012).

KEY ENABLERS AND CONSTRAINTS

Based on the findings from the reviewed interventions, three main factors appear instrumental in enabling positive outcomes:

- The programs focused on identified high-priority developmental needs where there was a strong unmet demand for the products or services for which the programs facilitated private investments.
- The programs took advantage of IFC's convening power and credibility with governments to address policy barriers and create an enabling environment for private investments—combining IFC's private sector, transactional focus with support to address specific policy and regulatory issues.
- A carefully designed set of interventions that simultaneously targeted the major constraints to market development was important. Since these barriers differ from market to market, the programs that could tailor their activities to target all the specific barriers identified in the host countries tended to experience better outcomes.

The review also identified some internal factors that deserve greater attention. Based on interviews with key staff involved with programmatic interventions, IFC's incentives and culture are not conducive to the innovation and risk-taking inherent in coming up with solutions to address upstream constraints. Although IFC has examples of upstream and market-creating initiatives, these have often been ad hoc, isolated, and motivated by personal initiative and relationships. Respondents highlighted the importance of a long-term view for assessing risks and opportunities, to allow for experimentation and innovation necessary for ideas to be translated into solutions and bankable projects. They also pointed to the need to overcome existing silos between investment, advisory, policy, country, and sector experts across the World Bank and IFC. Top management encouragement is also needed to elevate the focus on upstream interventions and market creation, as well as resources for innovation and promotional activities and cross-cutting teams. Finally, focusing more work on upstream initiatives could also help strengthen IFC's pipeline of new products and clients, allowing it to be more strategic about which ones to support.

Assessments of project preparation facilities similarly point to a lack of financial and human resources, small and fragmented facilities, a lack of a clear strategy and planning, and a lack of financial sustainability and information sharing model frameworks as reasons for the poor performance. A key differentiating factor of the more successful facilities in Asia is that their principal activity is directly linked to infrastructure project preparation.[3] In addition, assessments of the project preparation facility market identified insufficient assistance for early-stage project origination (CEPA 2012, 9). This is a particularly pertinent challenge as the lack of government capacity in Africa often necessitates that the private sector originates projects.

Country-Focused Interventions

The World Bank Group's new country engagement model has provided IFC with a platform to adopt a collaborative and programmatic approach jointly with the World Bank or MIGA. IFC has long undertaken programmatic or systematic engagements at the country level with the objective of attracting new and existing clients to address priority development needs. The new World Bank Group country engagement approach, launched in 2014, aims to increase the strategic focus of World Bank Group country programs. It emphasizes the integration of IFC, MIGA, and the World Bank as "One World Bank Group" at the country-strategy level to better serve and help country clients achieve the twin goals through a joint World Bank Group sector plan.[4]

STRATEGIC RELEVANCE AND APPROACHES

Specifically, joint World Bank Group sector plans are considered most useful in situations that require a medium-term outlook and involve a sequencing of public and private interventions to help achieve development impact in each sector, based on the priorities that have been established in the World Bank Group SCD and the CPF. To assess IFC's experience with country-focused interventions, IEG purposively selected the three cases that had completed the SCD and CPF and initiated joint World Bank Group sector plans as of April 2016 (IEG evaluated the SCDs and CPFs of 22 countries; see World Bank 2017). These relate to Côte d'Ivoire agribusiness, Mali agribusiness, and Myanmar power sectors. As these programs are ongoing, IEG has focused on their early implementation experience and implications for how IFC engages with clients (see appendix C).

A review of the underlying SCDs and CPFs suggests that the new approach still reflects a one-size-fits-all treatment of the private sector. Thus, although the SCDs linked the achievement of the World Bank Group's twin goals to private sector development and growth, the private sector analysis—except for Myanmar—provided little information on the profile, structure, and composition of the country's private sector. It also lacked business-oriented diagnostics and an analysis of private investment constraints and opportunities, which could help with priority setting and selectivity in the SCD and CPF. Only the Myanmar SCD provided contextual information about constraints and challenges to private sector development and identified the industries and economic sectors that present potential for private investment.

The review of the three-selected joint World Bank Group sector plans found that they were highly relevant in focusing on binding constraints of the country, and the responses aligned with addressing the constraints. Country conditions and low capacities required joint and coordinated strategies and programs with the World Bank or MIGA instead of IFC's traditional transaction-based approach and focus on the project sponsor as the client.

EFFECTS

Based on IEG's review of the early experience with three country-focused interventions, IFC's strategic, upstream engagement through joint World Bank Group sector plans offers potential for addressing binding constraints and increasing private investment in high risk contexts. The fragile political and security environment in Côte d'Ivoire, Mali and Myanmar poses significant obstacles for attracting private sector investments. These challenges have prompted IFC to calibrate its country-focused engagements to sector contexts.

In Myanmar, the joint World Bank Group sector plan aims to increase generation capacity and expand access to the electricity grid. Starting from a baseline where about two-thirds of the population is not connected to the grid, the plan has a specific target of raising access to 50 percent of the population and connecting 6.2 million people by 2020.[5] Early indications point to the usefulness of the joint plan for addressing low capacity and coordination challenges and new demands from the government before financing investments. Sequencing of World Bank Group support has been instrumental for addressing these challenges through a wide-ranging program of World Bank analytic work, IFC AS, and technical cooperation with the Japan International Cooperation Agency and the Asian Development Bank to improve viability of the sector. As a follow-up part of the joint plan, IFC has approved financing of a power plant in FY16.[6]

In Mali, the joint World Bank Group sector plan seeks to address the nexus between low productivity and value-added in agriculture. Eighty percent of the population depends on this sector for their livelihoods, but it only accounts for 4 percent of gross domestic product.[7] The binding constraints were agribusiness infrastructure, lack of know-how and access to finance. The CPF sought to address these constraints by increasing agricultural productivity, developing key agricultural value chains, and expanding access into regional and global markets. IFC's initial interventions focused on the livestock and mango processing value chains by providing AS to introduce business management practices for smallholders and helping transform a large portion of Mali's subsistence farmers into commercial farmers. However, low government and private sector capacity, the country's security situation and donor coordination challenges have resulted in slower than expected progress on this plan.[8]

In Côte d'Ivoire, IFC and the World Bank agreed to work jointly to ease binding constraints in the agriculture sector, specifically the lack of skills and technology, inadequate infrastructure and weak legal and regulatory frameworks. These constraints create disincentives and increase risks for agricultural producers. To reduce extreme poverty, the CPF indicated that much of the growth would need to come from agriculture, as farmers and smallholders were most affected by poverty. The SCD also concluded that agricultural growth would require productivity-focused interventions on key crops and capacity building to assist farmers and smallholders in implementing better farming and management practices. IFC AS and investments will focus on targeted agricultural value chains by providing access to markets, technology, and training to smallholders as well as addressing legal and regulatory constraints to modernizing the sector. Implementation of the plan has been slow. So far, there is one IFC investment project under the JIP, but no Advisory Services projects.

KEY ENABLERS AND CONSTRAINTS

The three main success factors identified above for programmatic upstream interventions apply to country-focused interventions as well: (i) high relevance in terms of development needs and priorities; (ii) careful design to target binding constraints; and (iii) leveraging IFC's convening power and credibility with governments.

In Myanmar, IFC realized early on that creating an effective legal and regulatory framework for the power sector and boosting institutional capacity must precede project development to establish a pipeline of bankable projects that would attract private sector investment over the long run. This long-term perspective first required providing IFC AS support, reinforced by World Bank dialogue with the Government of Myanmar and support for the Ministry of Electric Power to build government capacity and develop a transparent and competitive bidding process that reflected international best practices.

Although it is too early to assess effectiveness, the Mali joint World Bank Group agribusiness sector plan presented opportunities to reach private sector clients in a strategic way that IFC would have found challenging to support on its own without a joint plan. Building private sector client's technical, operational and financial capacity became the priority before IFC could meaningfully support investment. This challenge led IFC to target agricultural value chains that had potential to impact many smallholders and to scale up operations quickly. Such an approach was risky, as interviews with country staff reveal. Large scale investments are uncommon in Mali due to the adverse security situation. Unlike the Myanmar joint plan, IFC's Mali team searched for opportunities among agribusiness firms operating in the country and then picked the clients it can support. Simultaneously, World Bank support addressed the bottlenecks (such in rural infrastructure) to support production scale up by these investee firms.

Challenges affecting IFC's strategic engagements in the above cases were (i) the country-specific contexts that defined the parameters within which IFC could operate, (ii) IFC's knowledge and strategic positioning based on its competitive advantage relative to the other international financial institutions, (iii) working jointly with the World Bank and MIGA to offer an integrated solution, and (iv) IFC's leveraging of local relationship networks to mitigate project-level risks and ensure a successful development outcome. Of the cases observed, the political and security environments and low human and institutional capacities in the countries posed the greatest constraints to engagement, requiring IFC to tailor its approach in each case.

Strong relationships in the field were crucial for enabling IFC's engagements to adapt to country-specific contexts and ensuring successful project outcomes. The specific interventions in the joint plan could not have been designed or executed effectively without leveraging the staff's deep country expertise and relationship networks, and that staff engagement in the field was critical for managing the country project portfolio. Working jointly with the World Bank and MIGA helped IFC offer an integrated solution and comprehensive package of support to potential clients.

Joint plans require alignment of incentives and resources to develop collaborative engagements at the country level. However, there are no budgets for World Bank Group coordination efforts under joint sector plans. Also, IFC incentives and culture continue to be driven by volume targets, which affect IFC's effectiveness in more difficult markets such as FCS and low-income IDA countries where project size, gestation periods, and quality of sponsors may not easily lend themselves to IFC's traditional business model.

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[1] The funding requirement for project preparation is estimated at between 5 and 10 percent of the project value (Leigland and Roberts 2007). Studies by the Programme for Infrastructure Development in Africa corroborate these estimates, with 7 percent taken as the central estimate across sectors (CEPA 2012, 33). An upper bound of 10 percent, however, may be more appropriate for African infrastructure projects.

[2] IFC's internal arrangements are embedded in its organizational structure – Corporate Finance Services and AS for PPPs and InfraVentures, a global infrastructure development fund. External, donor-supported arrangements included project preparation facilities.

[3] Project preparation facilities have also been known to have varying definitions of project preparation. The main difference is whether the first stage—creating an enabling environment—is

part of the project preparation (and therefore can be funded) or as a prerequisite for successful project preparation.

[4] The World Bank Group has adopted 33 joint plans, many of which in International Development Association and fragile and conflict-affected situation countries, of which nine were under implementation.

[5] The initial Energy Sector Joint Implementation for Myanmar was formulated in FY12, two years earlier than the Myanmar Country Partnership Framework (CPF). The World Bank Group's FY15–17 CPF for Myanmar had more modest targets in its results matrix for the objective on improved power generation and access to electricity. The CPF targets 3 million people with new or improved electricity service by 2017 and an additional power generation of 660 gigawatt hours annually by 2017 from 260 gigawatt hours in 2014. Myanmar's performance and learning review of the CPF (dated June 2, 2017) changed the target date to 2019 to achieve the indicators. The CPF and energy Joint Implementation had slow start due to government's capacity and implementation challenges.

[6] The 225 megawatt project combined the Cycle Gas Turbine (Myingyan Independent Power Producer) with an International Finance Corporation loan and Multilateral Investment Guarantee Agency guarantee (pending contract issuance). The latter is in addition to the Lighting Myanmar off-grid support via International Finance Corporation Advisory Services. The World Bank is financing the modernization of the Thaton gas power plant. (Discussed during the Myanmar Performance and Learning Review of the Country Partnership Framework, June 2, 2017.)

[7] Mali's fiscal year (FY)15–19 Country Partnership Framework sought to address this binding constraint by increasing agricultural productivity, developing key agricultural value chains, and expanding access into regional and global markets.

[8] Mali Agribusiness Joint Implementation Plan FY16–19 Second Follow-Up Meeting, May 10, 2017.

6. Conclusions and Recommendations

IFC has become more client focused since the early 2000s, and strategic client projects have been associated with better development results. The evaluation finds that client characteristics, supported by IFC's financial and nonfinancial additionality are a key factor associated with the superior performance experienced by IFC's engagements with strategic clients. These clients' projects also perform better in higher-risk contexts (IDA and FCS countries), which have been strategic priorities for IFC.

The effects of other elements of IFC's approach to strategic client engagement—a dedicated client relationship function, streamlined procedures, decentralized decision making, enhanced access to IFC AS and World Bank or MIGA instruments—could not be established at the portfolio level. However, in-depth case studies found a tangible effect on IFC's behavior: a deeper understanding of client needs, improved access to key decision makers, and involvement in upstream planning of future investments. These intermediate outcomes in turn had a positive effect on the strategic clients' access to new markets and sectors.

On the other hand, key objectives have not been achieved. IFC has not seen a sustained increase in quality business, and growth in strategic priority areas has not been driven by strategic clients. Significant improvements in business efficiency were not achieved and may have been unrealistic given the strategy's intent to move into higher-risk markets and countries. IFC presented neither greater ability to influence the clients' poverty orientation nor improved understanding of the development impact of its interventions. Even so, positive developmental impacts can be inferred from (i) the effect of IFC's additionality (special contribution not available from other lenders or investors); and (ii) the debottlenecking effect when the investment addresses a developmental gap, such as its support for clients' expansion into previously unattended or underserved areas where they can be expected to have reached poorer populations, and its support for clients' corporate social responsibility programs.

Overall, IFC's approach to strategic client engagement has been only partially and unevenly implemented. In the absence of an authoritative list of IFC's strategic clients, this study has used repeat clients, clients flagged ex ante as long-term partners, and clients served by client service leaders to identify strategic clients. Such clients were usually more sophisticated companies who invested in marginally higher-risk environments compared with IFC's average. Evidence does not indicate a difference in treatment between one-off clients and strategic clients in terms of the type of instruments deployed, pricing, monitoring of impacts, or aftercare. IFC did not develop or adapt accountabilities, incentives, or internal culture to support a shift toward a strategic client model or for engaging farther upstream.

Investments supported by strategic clients perform better than IFC's average in development outcome ratings and all subdimensions, except for E&S effects, where performance is the same between strategic and one-off clients. The clients' management quality and financial resilience, supported by IFC's financial and nonfinancial additionality emerge as the main factors associated with the superior performance.

Programmatic interventions to support upstream work with clients and market-creating activities have had mixed outcomes and have not been mainstreamed. The reviewed programmatic interventions have been highly relevant for IFC's strategic priorities and address major developing country needs, but outcomes have been limited. This is partly due to the high-risk nature of such activities but also the lack of mainstreaming and systematizing efforts across IFC together with necessary incentives and culture.

Country-focused engagements have provided a platform for IFC to move upstream, especially in IDA and FCS countries, and to broaden its definition of *client*. The joint World Bank Group sector plans are relevant to addressing binding constraints to private sector development, but it is too early to assess their contribution to IFC strategic priorities.

The above findings indicate that IFC's strategic approach to client engagement can be viewed as a comprehensive and relevant response to a changing world with multiple players in the private sector development space, more financing and advisory options available to private companies looking to invest in developing countries, and more confident domestic private sector investors in emerging and frontier economies. Although the client strategic approach has not been fully and consistently implemented, indications are that its key elements have had positive effects on IFC's behavior, and suggest that a fuller implementation would yield enhanced positive results. The limited experience to date with programmatic and country-based interventions—while highlighting the challenges of upstream work with clients—points to their relevance and potential contribution to IFC's future strategic priorities. Given this, the strengthening and more systematic implementation of the strategic approach to client engagement, fully integrated with market- and country-focused upstream interventions, appears to offer good potential for supporting IFC's strategic priorities—as reflected in IFC 3.0—and increasing its development impact.

Recommendations

Based on its findings, the Independent Evaluation Group makes seven recommendations.

I. **Implement systematically the strategic approach to client engagement with focus on areas where implementation has lagged.** To do so IFC needs to:

1. Adopt clear criteria for the selection and segmentation of clients according to IFC strategic priorities including for upstream project development, cascade and creating markets.
2. Streamline procedures and processes for strategic client and strengthen criteria for additionality for strategic clients, including for the justification of incremental additionality in repeat projects addressing the same market failure.
3. Identify areas of integration of client approaches with sector and country strategies and programmatic approaches.

II. **Strengthen the client relationship management function to enhance IFC's capacity to build a pipeline of new clients.** To do so IFC needs to:

4. Establish clear accountabilities and incentives for strategic client relationship management.
5. Strengthen the business development function and support systems by inter alia increasing the transparency and accountability for client interactions and their outcomes and integrating client management databases into IFC's information architecture.

III. **Enhance IFC's capacity for upstream engagement on projects to increase the number and quality of IFC's pipeline of strategic clients.** To do so IFC needs to:

6. Strengthen the capacity to operationalize findings of country and sector diagnostic work to develop new clients and investment opportunities.
7. Bolster IFC's internal incentives and resources to systematize support for upstream approaches across IFC departments.

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Appendix A. Methodological Approach

1. The evaluation's objective was to assesses how strategic and effective the International Finance Corporation (IFC) has been in its approaches to client engagement. It derives lessons from experience and informs future efforts to improve IFC's approach to client engagement in given country and client contexts to enhance its development impact. In line with the above, five key evaluative questions guided the collection of data and the framing of questions and recommendations:

- What is the nature and extent of implementation of IFC's approaches to strategic client engagement from fiscal year (FY) 04 to FY16?
- What are the effects of IFC's approaches to strategic client engagement for its strategic clients?
- What are the effects of IFC's approaches to strategic client engagement on IFC?
- What are the effects of IFC's approaches to strategic client engagement on the host developing countries?
- What are the main factors explaining the differences in effects?

Overarching Principles

2. Three central principles motivated the evaluation design: multilevel analysis, theory-based evaluation, and mixed methods. First, the evaluation adopted a multilevel perspective because the assessments covered the portfolio, programmatic and client-specific levels of IFC's client engagement. Second, the evaluation was grounded in a theory of change—a reconstruction of how the objectives sought by IFC's approach to client engagement were expected to improve client outcomes and IFC's development impact, as the concept evolved over a series of IFC strategy documents. IEG reconstructed the theory of change through an iterative process and validated it with key stakeholders. Third, the evaluation followed a mixed-methods approach combining a range of methods for data collection and analysis, and applied systematic triangulation to ensure the robustness of the findings.

Evaluation Scope

3. While IFC engages clients in a wide spectrum of strategic and episodic ways, this evaluation focuses on three main, complementary modalities that IFC has employed:

- **Client-focused partnerships:** refers to IFC's engagements with long-term clients to help them enter new markets and enhance their contribution to IFC's strategic priorities. Examples include long standing IFC private sector clients such as Raiffeisen Bank, Ecom, AES, and the Aga Khan Fund for Economic Development.
- **Programmatic interventions:** sector-focused multicountry programs or initiatives through which IFC engages clients by first investing in the upstream diagnostics, identification and development of investment projects, risk mitigation and relationship brokering with key project stakeholders including co-financiers, government, donors and other parties.

Examples include InfraVentures, Africa Micro, Small, and Medium enterprises (MSME), Health in Africa, and Lighting Africa.

- **Country-focused interventions:** programmatic or systematic approaches at the country level where IFC helps create conditions for attracting new and existing clients to address high-priority development needs of the country. This modality calls for a more purposively strategic selection of IFC clients to enhance the likelihood of being able to support projects that meet the development needs of the country. Examples include joint World Bank Group sector plans in Côte d'Ivoire, Myanmar and Mali.

4. Given the importance of the first modality, the report's focus is on client-focused partnerships.

Evaluation Components

5. Table A.1 lists the evaluation components. The next two sections provide more details on each component.

Table A.1. Evaluation Components

Evaluation Component	Description
Review of literature and strategy documents	Review of business literature on client engagement and relevant IFC strategy documents and board papers
Reconstruction of a theory of change	Reconstruction of how the desired changes sought by IFC's approach to strategic client engagement were expected to happen
Portfolio review	Statistical analysis of IFC's portfolio of close to 3,500 investments between FY04 and FY16, involving 2,306 client groups, and the evaluated portfolio of 632 projects over the same period
Case studies of client-focused partnerships	In-depth analysis of IFC's engagement with a sample of 16 client groups, purposively selected to be broadly diverse in terms of industry groups and client types
Case studies of sector-focused programmatic interventions	In-depth analysis of IFC's experience with a sample of four programmatic approaches, purposively selected on the basis of having have been authorized by the Board of Directors and having some evaluative evidence
Case studies of country-focused interventions	In-depth analysis of IFC's experience with three joint World Bank Group sector plans, purposively selected on the basis of having completed the SCD, CPF and initiated joint World Bank Group sector plans as of April 2016
Review of IFC client surveys	Review of IFC's annual Investment Client Surveys from 2008 to 2016
Benchmarking with IFC comparator institutions	IEG interviewed three international financial institutions—EBRD, EIB and IIC—and researched insights from commercial banks regarding their approaches to client relationship management
Key informant consultations and interviews	Workshops and semistructured interviews with IFC staff and managers, and client counterparts

Note: EBRD = European Bank for Reconstruction and Development; EIB = European Investment Bank; IIC = Inter-American Investment Corporation.

Ensuring the Validity of the Findings

6. IEG took several steps to ensure a consistent approach across the evaluation team members—for example, using a case study template and interview protocols to ensure a common framework and evaluative lens across studies. The team also applied triangulation at multiple levels by cross-validating findings from case studies with findings from the portfolio analysis and client surveys.

7. Furthermore, the evaluation team also applied external validation mechanisms at various intervals during the evaluation process. For example, at the inception stage, the team organized workshops with key IFC counterparts to discuss and validate the theory of change for the evaluation, the proposed selection of case studies—given the proposed criteria—and the overall methodological approach. The key IFC counterparts were consulted again at the completion stage, when the team presented and discussed the preliminary findings of the study. Finally, four peer reviewers provided feedback at the beginning, during and at the end of the evaluation process.

Limitations

8. Notwithstanding these steps, the evaluation design is affected by several limitations that broadly fall into two categories. The first set of limitations derives from the lack of specificity of IFC's client engagement strategy that IEG set out to evaluate, and the second set of limitations is due to methodological and data availability constraints.

9. Limitations relating to the lack of specificity of IFC's client engagement strategy derive from:

- **The absence of a unique client engagement strategy:** From the early 2000s, IFC has aimed to transform itself from a transactions-focused to a client-centered institution with the main objective of increasing its development impact. But while the main objective remained the same, the articulation of its strategic approach to client engagement was built on and refined in several strategic documents. There is thus no unique client engagement framework to serve as a benchmark for the evaluation, but rather a series of commitments that evolved and changed over time. The team recognizes this and has considered it for its assessment and conclusions.
- **The partial and uneven implementation of IFC's announced client engagement strategy:** The most fully articulated and complete of the relevant strategies, the client strategic engagement model, announced and launched in 2007 under the strategic document *IFC 2010: A Client-Centered Corporation*, which included a specific implementation action plan and progress indicators, was not systematically implemented, which has limited the evaluation's ability to do full justice to its potential effectiveness.

10. Limitations due to methodological and data availability constraints include the following:

- **Lack of an authoritative list of IFC's strategic clients:** In the absence of an official, commonly agreed list of IFC's strategic clients, this study has used repeat clients, clients flagged ex ante as long-term partners, and clients served by client service leaders to identify de facto strategic clients.

- **Inaccurate IFC database on client groups:** Client groups are defined as all IFC project operating companies that are either (1) majority owned (50 percent +1 shares of total voting shares) by the same parent company, or (2) controlled by the same parent company. However, a sample review of repeat engagements suggests that IFC's database has not fully linked all its investment projects to the relevant parent company (see box 2.1 of the main report).
- **Lack of IFC information on client groups:** IFC's client database is limited to the project operating companies whose investments it supports, rather than to the parent companies or client groups. As a result, the evaluation could only consider the effects of IFC activities on the operating companies, rather than on the client groups, which were the targets of IFC's client engagement strategy.
- **Lack of monitoring and reporting of developmental impacts:** IFC's results framework is mainly focused on the operating companies' results and supply-side measures of outcomes (for example, energy generation, lending volume), so that in most cases, the actual developmental impact on host country beneficiaries (for example, jobs creation, poverty reduction, and so on) can only be inferred.
- **Small number of evaluable programmatic interventions:** This evaluation purposely selected all programmatic interventions for which there was a Board Document and some evaluative evidence (a self-evaluation, independent evaluation, or one-off supervision reports) during the FY04-FY16 period under review. A quick search of the database found only four programs meeting these criteria.
- **Small number of and limited experience with country-focused interventions:** This evaluation purposely selected all country-focused interventions that had completed the SCD, CPF and initiated joint World Bank Group sector plans as of April 2016. Only three country-focused interventions meet these criteria.

Evaluation Building Blocks

REVIEW OF THE LITERATURE AND STRATEGY DOCUMENTS

11. The team carried out a rapid review of the business literature to clarify its understanding of the origins and meaning of client engagement as a business strategy (see Biggs 2010; Bowden 2009; Brodie et al. 2011; EIU 2007). Its main findings are that the concept of client engagement originally emerged in the late 1990s based on the recognition that better business opportunities could be created by moving from a focus on one-off transactions to investing in building deeper and broader relationships with clients. In the face of strong competition based on price and quality, companies began to see the level of client engagement as an important product differentiator. Instead of traditional transactions involving a specific project, private companies aimed at the creation of a more meaningful and enduring connection by developing new ways to become familiar with client needs and expectations, and proactively combining all available resources to ensure that they can be more effectively fulfilled. While there appears to be no generally agreed definition, because different businesses and sectors have interpreted the concept in their own way, key elements of the emerging client engagement approach have included greater attention to (i) the full spectrum of client interactions, to build mutual awareness, trust and understanding; (ii) the entire range of client needs and objectives; and (iii) continuity and coordination of interactions with the client. The expected result is a close and long-term relationship with a more fully committed client.

12. The team also undertook a second, more targeted review to document the emergence and evolution of IFC's strategy approach to client engagement. It found that the early signs of IFC's approach to client engagement date back to 2004, when the IFC *Strategic Directions* (IFC 2004) identified the building of long-term partnerships with emerging global players in developing countries as a strategic priority. The concept of engaging with clients more selectively and farther upstream, more deeply and broadly, to achieve greater impact and to meet its strategic priorities was more fully articulated under the strategic document *IFC 2010: A Client-Centered Corporation*, which defined a client strategic engagement model, including a specific implementation action plan and progress indicators (IFC 2007). The approach was further built on in the *IFC Road Map FY15–17*, which established the enhanced client engagement model (IFC 2014). Most recently, the *IFC Strategy and Business Outlook FY17–19* highlighted IFC's continuing need to deliver on its mandate by working with new and existing clients to support the development of new markets, and to broaden and deepen existing markets (IFC 2016). The evolution of IFC's approaches to strategic client engagement is described in more detail in annex B of the approach paper (World Bank 2016).

THEORY OF CHANGE

13. The theory of change for this evaluation is that by strategically identifying and proactively deepening and broadening its engagement with selected clients, IFC will maximize its development impact in terms of its achievement of strategic objectives and contribution to the development outcomes of the clients' projects. The client strategic engagement model outlined in 2004 *Strategic Directions* and fully articulated in the 2007 strategic document *IFC 2010: A Client-Centered Corporation*, provides a useful ordering of the causal relationships underlying IFC's approach:

- In the client engagement model, client relationships would be a means to develop transactions that accomplish strategic objectives. Engagement with potential and existing clients would be driven first by country and sector strategies—starting from the identification of firms based on their alignment with these strategies, potential business volume, private sector demonstration effect, and development impact. IFC would target these companies as long-term partners by supporting them with dedicated client relationship teams to provide them with specialized local knowledge and contacts, assist with regulatory issues and mitigation of political risk, provide guidance with environmental and social standards, enhance credibility with other investors and host governments, and access to IFC/World Bank Group global knowledge and resources.
- Within IFC, the strategic client engagement approach was also expected to induce immediate behavioral changes and intangible benefits such as deeper understanding of client needs and objectives, improved access to key client decision makers, greater involvement with the upstream identification, design and implementation of client investments, and facilitation of faster response time and product delivery.
- From the client's perspective, the new model was expected to improve the selected strategic clients' access to IFC inputs and services, as reflected in incremental access to senior investment staff, industry and environmental and social specialists, improved access to new markets, better-designed and -structured projects, faster delivery of IFC products and, eventually, improved results (client satisfaction, achievement of business, development and sustainability objectives, improved focus on poverty/base of the pyramid).
- For IFC, the strategic selection and engagement of clients was expected to lead to improved business efficiency (in terms of cost per volume and transaction), enhanced IFC

additionality, increased and better-quality IFC business in strategic priority areas (IDA, FCS, and priority sectors) and improved monitoring and understanding of its development impacts.

- From the host countries' perspective, IFC's strategic approach to client engagement was expected to deliver enhanced development impacts, as reflected in improved conditions for private investments in target sectors, enhanced private investment flows in target sectors, enhanced industry standards, and more jobs and business opportunities.

14. On this basis, figure 1.1 in the main report outlines the theory of change that can be derived from a review of IFC's strategy documents describing the introduction and evolution of its strategic approach to client engagement. It also highlights the major external factors (country risk, market risk, capital availability/funding gaps, and so on) and client factors (sponsor risk, management quality, corporate governance, and so on) that can affect the results of the strategic client engagements.

PORTFOLIO REVIEW AND STATISTICAL ANALYSIS

15. IEG undertook a comprehensive portfolio review covering the entire portfolio of IFC financial and knowledge support committed between FY04 and FY16—comprising close to 3,500 IFC investments. The beginning of this period was chosen to align the study period with the identification of a focus on strategic clients as an IFC priority. The portfolio analysis identified characteristics and patterns, as well as the performance of different categories of IFC's de facto strategic clients versus comparison groups (that is, one-off clients) during the reviewed period. The review was based mainly on IFC databases for Advisory and Investment Services and IEG's evaluative database. IEG's evaluative database of project evaluations encompassed 632 investments committed between FY04 and FY11 and evaluated between 2007 and 2016.

16. Because IFC tracks its portfolio and results at project rather than at client group level, IEG first mapped the entire project portfolio to the client group database. Performance patterns thus represent project-level ratings that were mapped to categories of clients analyzed by IEG.

17. The portfolio review identified 2,306 client groups that received IFC support during FY04–16. Of these, 493 client groups were repeat clients; whereas the remaining 1,813 were one-off. In addition, 390 client groups were identified ex ante as potential long-term partners, and 76 client groups were served by client service leaders (see figure 2.2 of the main report.). These types of de facto strategic clients overlap. About 31 percent of IFC client groups meet at least one criterion and 1 percent (21 groups) meet all three criteria.

18. The portfolio review established the distribution, key characteristics and performance patterns of IFC's portfolio, differentiating between strategic client groups (identified as described above) and all other IFC clients. IEG applied appropriate filters to identify operationally relevant characteristics, performance patterns and drivers—such as development outcomes of the evaluated portfolio; country and project risk factors, instrument mix, among others.

19. IEG conducted descriptive statistical analysis for the results to establish trends of performance and explore associations between characteristics and project performance.

CASE STUDIES OF CLIENT-FOCUSED PARTNERSHIPS

20. In addition to the portfolio analysis, the evaluation conducted original, qualitative analysis of case studies of client relationships to derive factors of performance and lessons. The case studies involved a desk review of project files related to a client, interviews with IFC staff responsible for the client relationship, and where feasible, interviews with client counterparts. This case study approach allowed IEG to review client relationships within their external context, such as the country and industry environment, as well as the internal context of the evolution of IFC's strategy and approaches (as indicated in the theory of change).

21. IEG selected a purposive sample of long-term client case studies from de facto strategic clients (that is, repeat client groups and those identified by IFC as potential long-term partners). The sample was selected to be broadly diverse in terms of industry groups and client types. IEG selected case studies from those meeting the following three criteria:

- Client groups with multiple investments during the FY04–16 period.
- Client groups with at least one investment in a country context identified by IFC as a strategic priority during the FY04–16 period, that is, IDA-eligible or FCS countries.
- Client groups with at least one evaluated project.

22. The rationale behind these criteria was to generate original insights from such client engagements IFC had successfully leveraged to expand its business into higher-risk areas of corporate strategic priority, and for IEG to leverage existing project evaluations.

23. Of the 2,306 client groups IFC has supported between FY04 and FY16 (and 493 repeat clients), 54 met the three selection criteria. The 16 client engagements selected for in-depth case studies represent 0.7 percent of all client groups and 3 percent of repeat clients, encompass 129 eligible long-term investments (3.7 percent of all IFC projects in FY04–16) and account for a commitment volume of $3,749,699 (3.6 percent of IFC's total for the period).

24. The case studies encompassed a review of the entire client relationship since inception up to FY17, including the portfolio of investments and Advisory Services related to this client group.

25. Although all 16 cases involved repeat client groups, 10 were also identified ex ante by IFC as long-term partners, and 6 are covered by a client service leader. The 16 cases involved three (Aga Khan Fund for Economic Development [AKFED] Group, Ecobank Transnational Incorporated Group, and ACLEDA) of IFC's top 10 clients in terms of the number of investments supported between FY04–16. These top 10 client groups were AKFED Group, Ecobank Transnational Incorporated Group, Société Générale Group, Procredit Group, Raiffeisen Zentralbank Österreich (RZB) Group, Access Holding Group, Wings Group, Şişecam Group, ACLEDA Group, FINCA Group.

26. The sample includes two infrastructure clients, six manufacturing, agribusiness and services clients, two information and communication technology clients, two financial institutions group clients, and three multi-industry clients. In terms of client types, the sample includes eight multinational corporations, four family-owned companies, seven client groups headquartered in Part II countries, and three social enterprises. On average, IFC has undertaken eight investments, with

total commitments of $234 million, with each of the client groups in the sample. On average, six of these projects were invested in IDA countries and two in FCS countries., and 1.5 in priority sectors (infrastructure, health and education). IFC had a total portfolio of 129 projects with this sample of client groups, of which 43 had been evaluated.

27. Separately, IEG conducted a review of eight long-term clients in the financial institutions group to assess the evolution of IFC's incremental additionality in repeat, long-term client relationships. This review included four of the case studies selected for the in-depth review described above and four additional ones—Raiffeisen Bank International Holding, UniCredit S.p.A., Société Générale S.A., and Standard Bank Group.

CASE STUDIES OF PROGRAMMATIC INTERVENTIONS

28. IFC has supported efforts to engage in upstream, market-creating interventions to develop new or leverage existing client relationships throughout its history, such as Project Development Facilities used in the 1990s. For this modality, which uses client relationships to catalyze new markets, the evaluation used a case study approach to examine four specific programs to derive findings.

29. This evaluation purposely selected all programmatic interventions for which there was a Board Document and some evaluative evidence (a self-evaluation, independent evaluation, or one-off supervision reports) during the FY04–16 period under review. A quick search of the database found four programs meeting these criteria: InfraVentures, Africa MSME program, Health in Africa, and Lighting Africa.

30. **Methodology:** The assessment of programmatic interventions intended to answer all the evaluative questions in para 1, subject to the limitations imposed by the small sample size and limited information on outcomes. On this basis, IEG reviewed the key documents that informed the board of these interventions, and available evaluative evidence (self-evaluation, independent evaluation, or one-off supervision reports). In addition, IEG conducted structured interviews with key staff involved with these programs and in IFC upstream work more broadly. To the extent possible, IEG also triangulated between these findings and those of the portfolio review and strategic client case studies of client-focused partnerships.

CASE STUDIES OF COUNTRY-FOCUSED INTERVENTIONS

31. IFC has engaged in programmatic or systematic interventions together with the World Bank and/or MIGA for some time. More recently, these engagements have been scaled up through the new country engagement approach and the introduction of joint World Bank Group joint implementation plans (JIPs) and joint business plans (JBPs), of which there have been 33 to date. Of these, nine are under implementation. This evaluation purposely selected all country-focused interventions that had completed the SCD, CPF and initiated joint World Bank Group sector plans (JIP or JBP) as of April 2016. Only three country-focused interventions meet these criteria: namely Côte d'Ivoire's Agribusiness JIP, Mali Agribusiness JBP, and Myanmar Power Sector JBP.

32. **Evaluation Question and Methodology:** The assessment of country-focused interventions intends to answer the question "To what extent has systematic or programmatic country-level engagements contributed to a more strategic, upstream engagement with clients compared with

previous country-level engagements?" To answer this question, IEG reviewed ongoing World Bank Group joint sector programs in three fragile and conflict-affected states, namely Côte d'Ivoire's Agribusiness JIP, Mali Agribusiness JBP and Myanmar Power Sector JBP. These three joint sector plans were purposively selected from among 22 countries that have completed SCD and CPF as of April 2016 (World Bank 2016). Since these joint sector plans are recent, IEG assessed the process, context and rationale of IFC's client selection. To the extent possible, IEG reviewed early implementation outcomes. Information sources include the respective country's SCD, CPF, JIPs and IFC Advisory and Investment Services project databases. IEG also reviewed relevant country strategy and thematic evaluations and conducted structured interviews of IFC regional strategy officers and program managers in the country units.

REVIEW OF IFC CLIENT SURVEYS

33. IEG reviewed IFC's annual investment client surveys from 2008 to 2016. The annual survey covers clients with a first disbursement on a project during the fiscal year, and clients in IFC's portfolio whose first disbursement was three years ago. IFC hires an external vendor to administer the survey. The results analysis is performed by the vendor with input from the investment client survey team of the Corporate Strategy Department.

34. IFC released aggregated investment client survey results for FY16 in September 2016. A total of 254 clients responded to the FY16 survey (64 percent response rate). The main results at the corporate level, as well as by region and industry were distributed within IFC. The information also includes data benchmarking IFC against the clients' alternative source of finance, and a summary of key trends since 2006.

BENCHMARKING WITH COMPARATOR INSTITUTIONS

35. As discussed in Chapters 3 and 4 of the main report, the client surveys indicate that IFC's response time and requirements emerge as a major source of complaints, and IFC scores relatively low in these aspects in relation to its comparators. To gain some understanding of how these findings may relate to IFC's and its comparators' approaches to client engagement, IEG interviewed three international financial institutions—the European Bank for Reconstruction and Development, the European Investment Bank, and the Inter-American Investment Corporation—and researched insights from commercial banks regarding their approaches to client relationship management. As discussed in chapter 2, these inquiries found that private and public sector financiers have adopted a range of strategic approaches to client engagement. These comparators evince varying degrees of client focus (in addition to emphases on geography, sector, or instrument), and all involve a matrix structure in terms of organizational responsibilities. The same is seen in the commercial banking sector, where most institutions are client focused.

KEY INFORMANT CONSULTATIONS AND INTERVIEWS

36. Close to the beginning and completion of the evaluation, IEG undertook two consultation workshops with IFC staff and managers:

- On November 18, 2016, at the design stage of the evaluation, IEG convened a workshop to solicit feedback and suggestions on the proposed approach for the evaluation of IFC's approach to strategic client engagement. The workshop was attended by ten IFC managers and staff and six members of the evaluation team, and its main suggestions were documented in the minutes.

- On May 22, 2017, near the conclusion of the evaluation, IEG organized a second workshop to present and solicit views on the emerging findings. The meeting was attended by 12 IFC managers and staff and seven IEG managers and team members. The evaluation team prepared minutes to record the main feedback and points discussed.

37. Between January and July 2017, the evaluation team conducted 30 semistructured interviews with IFC staff involved in client relationship management and their counterparts in client organizations. The main findings and feedback of these interviews was documented in minutes. Specifically:

- 18 interviews with IFC staff engaged with case study client relationship and country/sector program management focused on supplementing the findings of the desk reviews, especially regarding the role and responsibilities of the relationship manager/client service leader, and the extent to which the relationship was viewed as strategic and attendant implications in terms of the management and deepening of the client engagement.
- 9 interviews with case study client counterparts focused on deepening IEG's understanding of key achievements and challenges in the client's engagement with IFC, and the nature of IFC's additionality and special contribution.
- Finally, as already noted, IEG interviewed representatives of three comparator institutions.

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Appendix B. Programmatic and Upstream Interventions

1. IFC has supported efforts to engage in upstream, market-creating interventions to develop new or leverage existing client relationships throughout its history, such as Project Development Facilities used in the 1990s. For this modality, which uses client relationships to catalyze new markets, the evaluation used a case study approach to examine four specific programs to derive findings. These were selected purposively from a list of programmatic approaches which have been authorized by the Board of Directors and for which there is some evaluative evidence (a self-evaluation, evaluation, or regular supervision reports). Several programs meeting these criteria have been identified, including InfraVentures, SME Finance Facility, and Africa MSME program.

2. **InfraVentures**. The lack of funds dedicated to the early stages of infrastructure project development in IDA countries is an important constraint to private sector participation in infrastructure. Risk capital is scarce in infrastructure projects due to regulatory environment; perception of risk for developers; complexity to achieve bankability for large scale infrastructure projects; limited availability of early-stage risk capital and other project development resources; and limited experience.

3. In response to the bottleneck, IFC set up an early-stage infrastructure project development facility. It was established in FY08 with $100 million financing ($47 million committed during Phase 1), for a period of five years and then extended for five more years in 2013 with $150 million financing and expanding to non-IDA countries, aiming to increase the number of financeable private and PPP infrastructure projects. IFC IV is aligned with the “IFC 3.0” strategy of creating markets

4. The fund allows IFC to engage with private infrastructure companies and governments in early stages of infrastructure project developments. It provides risk capital, and expertise in project development through equity, quasi-equity, cost sharing arrangements or other instruments.

5. **Africa MSME:** MSMEs struggle to access the financing they need across the world, particularly in Africa. Despite progress in the mid-2000s, the ratios of deposits and private sector credit to gross domestic product were very low in Africa compared with other emerging markets. At the same time, the banking sector in Sub-Saharan Africa has been facing important challenges.

6. In 2006, IFC approved a US$200 million investment facility with delegated authority for projects up to US$10 million in Sub-Saharan Africa. The Africa MSME Program is an institution-building initiative designed to enhance the capacity of beneficiary banks. The program is a combination of tailor designed on-site technical assistance and an IFC investment package. It was aimed to have a much greater impact on IFC’s outreach to MSMEs. After the program approval, as reflected in the board program update, the program placed a strong emphasis on identifying and pursuing banks in postconflict environments. IFC’s ultimate objective with this facility is to (i) deepen and broaden the African financial sector, and (ii) raise the standards of financial services provided to the MSMEs.

7. **Lighting Africa:** About 600 million people in Africa have no access to grid electricity, a number expected to rise to about 700 million by 2030. These people rely on polluting and dangerous sources of lighting such as kerosene lamps, candles and battery-powered torches. Given advances in technology and increased competition, portable modern lighting devices have become more affordable. This created an opportunity for people living in off-grid areas to replace kerosene lamps with higher quality, safer, and more affordable modern lighting products such as solar lamps. However, despite the benefits of solar lamps, the market was not developing as quickly as expected.

8. The Lighting Africa program was created in 2007 to transform the off-grid market by addressing the barriers that were constraining the growth of this market. Its goal was to help catalyze markets for quality, affordable, clean, and safe off-grid lighting, and ultimately to create a sustainable commercial platform that would realize the vision of providing 250 million people with modern off-grid lighting by 2030. The overall approach was to demonstrate the viability of the market by providing market intelligence, developing a quality assurance infrastructure, facilitate business-to-business interactions, help governments address policy barriers, provide business development services, and facilitate access to finance for manufacturers, local distributors and consumers. The program received about $22 million in donor contributions from 2007–2013.

9. **Health in Africa:** Established in 2008, Health in Africa's objective is to increase, improve and extend the reach of financing and therefore provision of health services in Africa by:

- developing an equity vehicle through which medium and long-term investments can be made in private companies operating in Africa's healthcare sector;
- developing a fund to enable expertise and resources to be provided to governments in Africa to assist them in developing appropriate policies to encourage, regulate, and engage with the private healthcare sectors in their countries;
- developing a fund which will provide the resources through which technical assistance can be provided to socially responsible private organizations operating in Africa's healthcare sector as well as to financial intermediaries in Africa with an interest in developing financial products for private healthcare organizations; and
- investigating how financing might be made more readily available to the social enterprises, or nonprofit organizations, operating in Health in Africa.

Appendix C. Country-Focused Interventions

1. IFC has engaged in programmatic or systematic interventions together with the World Bank and/or MIGA for some time. More recently, these engagements have been scaled up through the new country engagement approach and the introduction of joint plans.

2. There have been 33 Joint Implementation Plans to date. Of these, nine are under implementation. The evaluation used a case study approach to review the early experience with joint plans in Côte d'Ivoire, Mali and Myanmar to derive findings in relation to their implications for engaging with clients. The cases were selected purposively from among those which had completed a Systematic Country Diagnostic (SCD), developed a Country Partnership Framework (CPF) and had agreed on a joint plan to guide implementation of the country strategy.

Background and Context

3. The new country engagement approach, launched in 2014, aims to increase the strategic focus of World Bank Group country programs. It emphasizes the integration of IFC, MIGA and the World Bank as 'One World Bank Group' at the country-strategy level to better serve and help country clients to achieve the twin goals. It calls for a more evidence- based and selective country engagement through the SCD and the CPF. The SCD uses data and analytic methods to support country clients and World Bank Group teams in identifying the most critical constraints to and opportunities for achieving the twin goals while considering the voices of the poor and the views of the private sector. The CPF discusses focus or priority areas for World Bank Group support, aligned with the country's development agenda. Selection of priority areas in the CPF are expected to address the key constraints and opportunities identified in the SCD.

4. The new country engagement model also calls for a programmatic approach, either through a joint implementation plan or a joint business plan, when it comes to collaborative work among World Bank Group institutions at the country level. Specifically, these joint plans are considered most useful in situations that require a medium-term outlook and involve a sequencing of public and private interventions to help achieve development impact in each sector based on the priorities that have been established in the SCD and CPF (World Bank 2015).

Description of Programs

5. In Myanmar, the World Bank Group institutions focused its joint efforts in addressing the lack of access to electricity, especially the rural areas, and the country's unreliable electricity supply, which limits growth of the private sector. Two-thirds of Myanmar's population are not connected to the grid and electricity supply is often unreliable. Such conditions hamper the delivery of critical services to Myanmar's rural population and development of its private sector. Through the World Bank Group's Power Sector Joint Implementation Plan, the country's access rate is expected to increase from 30 percent to 50 percent and connect an additional 6.2 million people by 2020 through support for projects that will increase the country's power generation capacity from 260 gigawatt hours to 660 gigawatt hours by 2017 and expand connection to the national grid. For IFC, helping reach this target means combining and sequencing its Advisory Services and

Investments given country and sector contexts. As example, IFC transaction advisory team's work on the Myingyan Independent Power Producer project, where the team helped the Ministry of Electric Power in reforming the independent power producer bidding process and in designing a framework for competitive tendering that reflected international best practices. Close collaboration among three World Bank Group institutions allows sequencing of regulatory, capacity building and upstream policy support before lending or investments can take place.

6. In Mali, IFC and the World Bank agreed to tackle jointly a binding constraint related to the underdevelopment of the country's agribusiness infrastructure and agricultural productivity of the country's smallholders and pastoralists. The SCD identified the improvement of agribusiness infrastructure and agricultural productivity as an effective poverty reduction strategy, pointing to evidence that increased food production benefited poorer households through a reduction in food prices, increased demand for casual labor, and increased direct income. IFC and World Bank joint agribusiness plan intends to increase agricultural productivity, develop key agricultural value chains, and expand access into regional and global markets; joint IFC and World Bank interventions were envisioned to be a combination of both "soft" (for example: policy reforms, service provision to SMEs) and "hard" (for example: construction of relevant infrastructure) investments to be sequenced over a short, medium, and long-term timeline.

7. In Côte d'Ivoire, IFC and the World Bank agreed to work jointly to ease binding constraints in the agriculture sector, specifically the lack of skills and technology, inadequate adequate infrastructure and weak legal and regulatory frameworks. These constraints create disincentives and increases risks for agricultural producers. To reduce extreme poverty, the CPF indicated that much of the growth would need to come from the agricultural sector, as farmers and smallholders were most affected by poverty; the SCD analysis also showed that agricultural growth would require productivity-focused interventions on key crops as well as capacity building interventions to assist farmers and smallholders in implementing better farming and management practices. IFC Advisory Services and Investments will focus on targeted agricultural value chains by providing access to markets, technology, and training to smallholders as well as address legal and regulatory constraints to modernizing the agriculture sector. The CPF also stated that IFC interventions would be executed in conjunction with IDA interventions under the IDA Agricultural Sector Support Project (FY14).

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Appendix D. Econometric Analysis of Client Learning versus Selection

1. The evaluation team ran two tests to discern whether it is client learning rather than selection that makes repeated lending successful:

- In a model with client group fixed effects, the repeated lending variable no longer comes in significant, suggesting it is (time-invariant) client group characteristics that appear to matter for project success. Interestingly, in the model with Country, Year, and Sector fixed effects, controlling for initial management and corporate governance quality, the repeated lending variable remains significant, indicating that other client variables explain the variation in project outcomes.
- Another piece of evidence comes from the comparison of a model with a dummy coded one for repeater clients vs. a model with a dummy coded one once a repeater client gets his second project. The former dummy is a rough proxy for client selection while the latter dummy is a crude proxy for client learning. Regression results show that the selection dummy is strongly related to project outcome while the learning dummy only weakly so, thus suggestive that selection matters more than learning.

2. While selection appears to matter, it is important to note that many other factors explain project outcomes. For instance, regressing project outcomes on a set of client group dummies yields an adjusted R^2 of 0.36, indicating that most of the variation is due to other factors besides (time-invariant) client characteristics. A model with country fixed effects explains about 6 percent of the variation in project outcomes, which is about the same as a model with Transaction Leader fixed effects.

Analysis

3. To examine the association of repeated lending with IFC project outcomes, we estimated variations of the following model:

4. $$E[Y|X] = \beta_0 + \beta_1 X_1 + \beta_2 (X_1)^2 + \beta_n X_n + \gamma_i + \gamma_t + \gamma_s + \varepsilon \ (1)$$

5. With Y the IEG outcome rating of an IFC project, X_1 the number of cumulative projects per client group, X_n a vector of relevant covariates—project size, project type (greenfield vs. expansion), IDA or FCS status, gross domestic product per capita growth at year of approval, political rights—and $\gamma_.$ country, year and sector fixed effects. We also tested a model with a linear specification and a model with diminishing returns, but the quadratic version came out with the best fit. The sample includes all IEG-rated IFC projects for clients that received their first loan after FY04. This corresponds to a sample of 397 operations. The models were estimated with ordinary least squares, clustering standard errors at the country level. The results of the main variations are found in table D.1.

Table D.1. Regression Output Cumulative Lending

Dependent Variable: IEG Outcome	(Model 1)	(Model 2)	(Model 3)
Projects	0.1812814 (0.0874958)[a]	0.1619695 (0.0883234)[b]	0.0714941 (.9369273)
Projects, squared	−0.0217148 (0.0113279)[b]	−0.0197003 (0.0107127)[b]	−0.0154173 (0.079736)
Country fixed effects	Y	Y	N
Year fixed effects	Y	Y	N
Sector fixed effects	Y	Y	N
Client group fixed effects	N	N	Y
Country and project controls	N	Y	N
Adjusted R^2	0.10	0.12	0.28
Observations (no.)	397	397	397

Note: Cluster-robust standard errors are shown between brackets. a. Significance at the 5 percent level. b. Significance at the 10 percent level.

6. To discern whether it is learning rather than selection that makes repeated lending successful, we also tested a model with "repeater dummies," that is, comparing a model with a dummy coded one for repeater clients versus a model with a dummy coded one once a repeater client gets his second project. In equation (1), we replaced the cumulative project count with the respective dummies and estimated the models with ordinary least squares. The output below (table D.2) shows that the selection dummy is strongly related to project outcome while the learning dummy is not in the base model, thus suggestive that selection matters more than learning.

Table D.2. Regression Output Repeated Lending

Dependent Variable: IEG Outcome	(Model 1)	(Model 2)
Selection dummy	0.0	0.1948641 (0.0623693)[a]
Learning dummy	0.0887054 (0.0836562)	0.0
Country fixed effects	Y	Y
Year fixed effects	Y	Y
Sector fixed effects	Y	Y
Client group fixed effects	N	N
Country and project controls	Y	Y
Adjusted R^2	0.11	0.14
Observations	397	397

Note: Cluster-robust standard errors are shown between brackets. a. significance at the 1 percent level.

Appendix E: Results of IFC Client Surveys

IFC conducts client surveys periodically to help IFC better understand clients' needs and satisfaction with IFC's services. The surveys also inform IFC's corporate strategy and the IFC Corporate and Department Scorecard.

The Investment Client Survey surveys a group of clients with new projects, and a group of portfolio clients. The annual survey covers clients with a first disbursement on a project during the fiscal year, and clients in IFC's portfolio -- those with a first disbursement on a project three years ago --. Each month, surveys are sent to all clients who received a project's first disbursement in the previous month as well as in that same month three years before. IFC hires an external vendor to administer the survey. The results analysis is performed by the vendor with input from the Investment Client Survey team of the Corporate Strategy Department.

Survey Methodology: Since 2007, the survey has been divided into two sections: a confidential or anonymous section and a non-confidential or non-anonymous section (Before 2007, the survey was all confidential). Only answers to questions in the confidential section are kept confidential -- final results are tabulated and reported in aggregate form to IFC and individual responses will not be identified --. For the non-confidential section, the responses by individual clients are available through IFC's internal website for departments responsible for client coverage.

Survey Questions Used for this Evaluation: In Chapters 3 and 4, this evaluation references results two questions in the non-confidential section of the IFC's most recent Investment Client Survey: "What do our clients value?" and "How do you rate your primary alternative (to IFC, from the client's perspective)?" The template for each question is shown below:

APPENDIX E
RESULTS OF IFC CLIENT SURVEYS

WHAT DO OUR CLIENTS VALUE?

11 To what extent are each of the following areas important to you in a supplier of the type of finance or guarantee provided by IFC, and how would you rate IFC's performance?

In answering this question, please use a score of 1 to 5 where:

Importance to Client:	**IFC Performance:**
5 = Critical	5 = Excellent
4	4
3 = Important	3 = Average
2	2
1 = Not important	1 = Poor

Scale of 1 to 5

	Importance to Clients	Knowledge/Expertise	IFC Performance: Poor 1	2	Average 3	4	Excellent 5	Not Applicable
a		Financial structuring and innovation						
b		Legal Input						
c		Technical Expertise of IFC staff						
d		Local and country expertise						
e		Global knowledge						
f		Environmental and social issues input						
g		Climate change mitigation input (e.g. energy efficiency, renewable energy, clean energy)						
h		Corporate governance input						
i		Anti-Corruption issues input						
j		Advisory services (on business, environmental and social, corporate governance, investment climate)						
k		Professionalism of IFC staff						
		Client Orientation						
l		Speed of processing						
m		Timeliness: Ability to meet transaction deadlines						
n		Responsiveness: Ability to respond on a timely basis						
o		Flexibility: willingness to adjust the process to your needs						
p		Local presence						
q		Understanding your needs						
r		Explanation of the IFC process including information requirements						
		Financing/Long-term Partnership						
s		Ability to provide financing not readily available elsewhere						
t		Ability to mobilize capital from additional sources						
u		The maturity of the financing provided by IFC						
v		The competitiveness of IFC's funding package						
w		Perceived stamp of approval overall						
x		Perceived stamp of approval on environmental and social issues						
y		Government relationships–access to government, policy influence						
z		Being a part of the World Bank Group						
aa		Long-term partnership						
ab		Ability to provide capital in times of crisis						

16 Please consider your primary alternative to IFC, for the type of finance or guarantee provided by IFC, and rate their performance in the following areas:

In answering this question, please use a score of 1 to 5 where:

5= Excellent
4
3= Average
2
1= Poor

		Performance of Alternative to IFC					
		Poor		Average		Excellent	
	Knowledge/Expertise	1	2	3	4	5	Not Applicable
a	Financial structuring and innovation						
b	Legal Input						
c	Technical Expertise of staff						
d	Local and country expertise						
e	Global knowledge						
f	Environmental and social issues input						
g	Climate change mitigation input (e.g. energy efficiency, renewable energy, clean energy)						
h	Corporate governance input						
i	Anti-Corruption issues input						
j	Advisory services (on business, environmental and social, corporate governance, investment climate)						
k	Professionalism of staff						
	Client Orientation						
l	Speed of processing						
m	Timeliness: Ability to meet transaction deadlines						
n	Responsiveness: Ability to respond on a timely basis						
o	Flexibility: willingness to adjust the process to your needs						
p	Local presence						
q	Understanding your needs						
r	Explanation of their process including information requirements						
	Financing/Long-term Partnership						
s	Ability to provide financing not readily available elsewhere						
t	Ability to mobilize capital from additional sources						
u	The maturity of their financing						
v	The competitiveness of their funding package						
w	Perceived stamp of approval overall						
x	Perceived stamp of approval on environmental and social issues						
y	Government relationships–access to government, policy influence						
z	Being a part of a global financial group						
aa	Long-term partnership						
ab	Ability to provide capital in times of crisis						

Key Survey Results: IFC released aggregated investment client survey results for FY16 in September 2016. A total of 254 clients responded to the FY16 survey (64% response rate). Based on these two survey answers to these questions, one can compare IFC's performance vis a vis the alternatives, for the areas clients considered "critical" in terms of importance. As shown in the table below, for repeat clients, IFC was weaker than alternatives in areas like speed of processing and completeness of funding package. IFC was better than alternatives, responsiveness and local presence. IFC was far superior in the areas of corporate governance and anti-corruption input, climate change and E&S. Compared against the one off group, repeat clients tend to rate the alternatives highly.