

Fifth Independent Evaluation Report to the IIC Board of Executive Directors

The IIC prepares Expanded Annual Supervision Reports (XASRs) on matured projects (according to best practices for multilateral organizations), and the Office of Evaluation of Oversight (OVE) reviews each report to verify the reliability of the analysis, impartiality and consistency in ratings, and completeness of the identified lessons learned. Once this review is completed, OVE then prepares a report for the Board of Executive Directors of the IIC.

Following is a summary of OVE's 2007 Report which reviewed XASRs prepared by IIC staff in 2007. It is the fifth such report on the IIC's evaluation system. The report covered sixteen projects (fourteen corporate and two agency line projects) that were approved between 2001 and 2003. As in previous years, the report assessed outcomes and outcome drivers of the IIC's investment operations during the life of projects. It also assessed the implementation status of past recommendations aimed at improving the IIC's evaluation process.

Report conclusions

The Report reaches very favorable conclusions regarding IIC's evaluation work. It concludes that good progress is being made with respect to implementing OVE's past recommendations for improving its evaluation process, namely: i) compliance with the Evaluation Cooperation Group of Multilateral Development Banks (ECG-MDB) standards and procedures; ii) implementation of lessons learned identified in XASRs; and iii) complying with OVE's specific 2006 report recommendations.

With respect to the nineteen recommendations contained in OVE's 2006 Report, IIC has implemented nine and is making good progress on seven more. The remaining three recommendations apply to financial intermediaries projects. In one case there is insufficient data to evaluate and for the remaining two there were no financial intermediary projects to evaluate in 2007.

In terms of the current report, OVE concluded that sixty-three percent of the sixteen operations reviewed achieved high development outcomes, a percentage similar to that of 2006. Fifty-six percent of the projects evaluated achieved satisfactory financial results—a percentage lower than that of the previous report. Forty-four percent of operations achieved “win-win outcomes,” meaning that they delivered both high development and high investment outcomes which is lower than that of 2006, when fifty-nine percent of reviewed projects had both high development and high investment outcomes.

OVE noted in its report that the number of prepayments has been rising over time. In the 2007 group, six projects were prepaid which is a doubling of the previous year's three project prepayments. This impacted on investment outcomes because for these projects they were canceled before IIC could receive at least sixty percent of the expected interest income.

In two cases of prepayments, OVE concluded, that soon after the IIC investment had been approved, clients found alternative funding sources which offered terms which met their needs more closely soon after they had signed project agreements with IIC. In both prepayment cases, IIC provided financing at a time when no local bank was willing to provide financing. However, improved liquidity in local financial markets changed the situation. Basically, IIC believes that when markets can provide competitive terms it no longer has a role in the project.

Since 2001, a total of 106 XASRs have been validated by OVE which provided the basis for analyzing longer-term trends. Rating averages were calculated for three years of evaluated projects. Development outcomes fell in the “Mostly Successful” zone for this group.

The group of projects analyzed for this report and longer-term trends suggest that IIC’s work quality is steadily increasing. Eighty seven percent in the 2007 Report achieved high IIC work quality ratings. This compares very favorably to the groups of projects analyzed in the 2005 and 2006 reports. For instance, in the 2005 Report only thirty-eight percent of projects achieved high ratings for IIC work quality; while in the 2006 Report sixty-nine percent of projects did. OVE concluded that this upward trend reflects the effort that IIC has devoted during recent years to improve the screening, structuring, supervision and administration quality.

OVE’s current report contains three recommendations. These are shown below in the table along with IIC actions taken in response.

#	OVE Recommendation	IIC Actions
1	IIC should periodically develop thematic case studies to more accurately measure economic impact at the sector/intervention modality level.	<ul style="list-style-type: none"> • During 2008, IIC will conduct a case study on a financial intermediary project. In doing this, several loans in one of the product categories (on-lending, leasing, microfinance, structured-finance, etc.) will be analyzed to determine actual results. • For corporate projects, IIC is developing a plan to conduct economic impact studies on a sectorial level. One objective will be to assess which sectors produce greater developmental impacts.
2	IIC should examine whether focusing more closely on clients with higher potential for business success will produce more sustainable developmental results.	<ul style="list-style-type: none"> • IIC’s experience demonstrates that good project business performance leads to more sustainable developmental results. This is evident from a review of all completed XASRs. IIC agrees with OVE’s recommendation. • Implementation of the Development Impact and Additionality Scoring (DIAS) system should improve the potential for business success. Strong business performance is an important indicator within the overall scoring system (15%) and thus influences project selection.
3	IIC should redouble its efforts to offer value-added services as a means of creating a competitive advantage which would reduce its exposure to price competition.	<ul style="list-style-type: none"> • A specialized business area for the provision of technical assistance and value-added services to SMEs is being established in IIC. The objective is: i) to increase the provision of non-financial products to SMEs through direct assistance; ii) to expand IIC’s network of alliances with public and private sector entities and, iii) to support the region’s SMEs in coordination with the IDB and MIF. The programs will focus on areas critical to IIC’s Business Plan: FINPYME, renewable energy and energy efficiency, and governance of family-owned SMEs.