



SYNTHESIS REPORT

The International Finance Corporation's Engagement in Fragile and Conflict-Affected Situations

Results and Lessons



IEG
INDEPENDENT
EVALUATION GROUP

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August 26, 2019

A Synthesis Report

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Abbreviations

E&S	environmental and social effects
FCS	fragile and conflict-affected situations
FCV	fragility, conflict, and violence
FDI	foreign direct investment
FY	fiscal year
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
MAS	Manufacturing, Agribusiness, and Services
PSW	Private Sector Window

All dollar amounts are U.S. dollars unless otherwise indicated.

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Overview

Background. Fragility, conflict, and violence (FCV) pose a major challenge for development and for reaching the Bank Group's twin goals. Enabling appropriate private sector activities can be a means to break free of the "fragility trap" by supporting economic growth, promoting local employment and income-earning opportunities, generating government revenues, and delivering goods and services. However, the private sector faces substantial constraints in fragile and conflict-affected situations (FCS).

Scope and Objective. This report takes stock of available evidence regarding the effectiveness of support from the International Finance Corporation (IFC) in FCS. It aims to inform IFC's strategy in FCS as IFC seeks to scale up its activities in FCS as part of its commitments under the Capital Increase Package, and to provide inputs for the Bank Group's fragility, conflict, and violence (FCV) strategy currently being developed.

IFC's strategy and engagement in FCS. IFC's corporate strategies have included a specific focus on FCS since 2009 and it adopted an FCS strategy in 2012. IFC has refined its approach over the past decade and introduced several initiatives and instruments to support its engagement in FCS and expanded its engagements in new areas such as forced displacement. Under its current 3.0 strategy (fiscal year [FY]17), IFC has introduced several mechanisms aimed at supporting FCS,

such as Creating Markets (which offers sector reform, standardization, building capacity, and demonstration to expand investment opportunities in key sectors); de-risking (Private Sector Window, guarantees, blended resources); and the Creating Markets Advisory Window and other upstream support to project preparation. Additionally, as part of the 2018 Capital Increase Package, IFC committed to a significant scale-up of its business program in FCS countries, to deliver 40 percent of its program in International Development Association (IDA) countries and FCS and 15–20 percent of its program in low-income IDA and IDA FCS countries, by 2030.

IFC's investment volume in FCS has been modest and has not shown an increasing trend over the last decade. In FY10–19, investments reached 4.5 percent of its total new commitments and 7.5 percent of the number of projects. IFC's portfolio in FCS countries is diversified across industry groups but has been concentrated in countries that already attract relatively high levels of foreign direct investment.

Advisory services are a key modality for IFC's engagement in FCS. They are more highly concentrated in FCS compared with its investments; FCS account for 16 percent of advisory projects and 14 percent of project expenditures (both numbers exclude regional advisory services projects).

Results of IFC investments and advisory services. Evaluated IFC investment projects in FCS perform similarly to those

Overview

in non-FCS: 54 percent of projects in FCS countries are rated mostly successful or above for their development outcome compared with 58 percent for projects in non-FCS countries. These results indicate that it is feasible to implement developmentally and financially successful projects in complex and risky FCS environments. They also reflect IFC's current business model, approach and policy and risk parameters, which may, however, also constrain IFC's ability to scale up business in FCS as the flat business commitment volumes in FCS countries since FY10 suggest.

Evaluated investments have a range of positive development outcomes in their FCS host countries, including increased employment and income-earning opportunities, upstream and downstream links with local businesses, the generation of government revenues, lower consumer prices, and increased access to infrastructure and services. Evaluations observed that IFC's due diligence standards have generally been high and did not find any significant adverse effects on the environment, local communities or private sector development in FCS.

By industry group, projects in telecom and infrastructure and natural resources performed well, while manufacturing, agribusiness and services projects faced challenges in meeting their financial and development objectives. In the financial sector, IFC investments helped catalyze microfinance institutions in FCS countries,

but most of the projects did not achieve their expected profitability targets.

Stronger results among evaluated investments were associated with larger investment sizes and larger economies – characteristics that may be limited in FCS countries and may constrain scaling up IFC engagement in future. In some cases, risks related to fragility and conflict such as security risks adversely affected project performance. The quality of IFC clients in FCS was strong, which likely supported positive outcomes. However, a focus on stronger clients may also indicate a degree of risk aversion to work with new types of clients. Solid IFC work quality also paid off in FCS, likely supporting stronger outcomes. Doing business in FCS is costlier, with IFC's operational cost for projects in FCS double that in non-FCS countries.

An initial IEG review of IFC's use of blended finance suggests the instrument can help support projects with high financial risk perceptions, but it does not provide significant risk reduction in nonfinancial risk areas. Projects supported by blended finance involved high operational costs for IFC due to their smaller size.

Evaluated IFC advisory services interventions in FCS performed below those in non-FCS countries. Forty-seven percent of advisory services interventions achieved mostly successful ratings or above for their development effectiveness compared with 56 percent in non-FCS. Several projects highlighted the

importance of capacity building and absorptive capacity in FCS. Regarding assistance to investment climate reform, IEG evaluations conclude that reforming business environments is a necessary condition in the medium term but not sufficient to overcome constraints to private investment in FCS.

Lessons. Adapting IFC's business model, instrument mix and risk tolerances to FCS countries and to the characteristics and needs of the private sectors in such countries can help scale up business opportunities for IFC. IFC has adjusted its strategy and introduced several new mechanisms and instruments to support business in FCS. However, it has not systematically adapted its business model to work in FCS.

Similarly, aligning internal incentives and performance metrics to IFC's strategic objectives can support increased engagement in FCS. To this end, IFC recently added corporate targets and metrics for its commitments in FCS and low-income countries in its corporate scorecard and redesigned its corporate awards program. IFC can further link its corporate goals to individual performance metrics. Finally, past evaluations point to the importance of adequate staffing for FCS. These evaluations also found that IFC has deployed relatively few investment officers to FCS.

The range of potential private sponsors in FCS countries suggests different pathways to increasing business in FCS – including through proactive upstream

efforts to conceive projects, working with existing clients not yet invested in FCS, and engaging with nontraditional sponsors. Given the low capacity business environment in many FCS, advisory services may be important to enhance the capacity of some sponsors.

IFC can have high additionality when it is working with smaller domestic sponsors or existing clients investing in an FCS for the first time. Its implied political risk insurance and implementation support helped enable several investments in FCS. In some cases, however, additionality was more limited where an established client may have been able to attract similar financing from commercial sources. Engaging with the private sector in FCS countries requires collaboration and offers opportunities for synergies among World Bank Group institutions.

Implications. Promoting private sector development and private investment in high-risk FCS remains a major challenge. IEG evaluations emphasize the challenges related to leveraging the private sector for sustainable development in FCS countries, including investing in difficult operating environments with specific fragility risks (such as security, weak capacity of clients and governments), different characteristics of the private sectors and potential project sponsors, distinct features of investment opportunities, and higher cost of doing business. A key knowledge gap remains concerning which approaches and instruments are effective

Overview

in engaging the private sector in FCS countries.

While IFC has adapted its strategy and introduced some new initiatives and instruments for FCS, it has not been able to scale up business in FCS countries in line with its strategic priorities. Although some IFC initiatives are recent and have yet to be evaluated, IFC's record to date may require it to enhance the 'fitness for purpose' of its strategy in FCS through continuous experimentation, adaptation of its model and approaches, and learning by doing.

Past IEG evaluations have identified the following three areas of attention that can potentially strengthen IFC's engagement and support the scale up of its investment and advisory activities in FCS countries:

1. Tailor business development to different typologies of FCS markets and different types of potential private sector clients in FCS countries;
2. Address IFC staff incentives, skills, and staffing to enhance their 'fit for purpose' to FCS-related work;
3. Adapt IFC's approach, risk appetite, instruments, and metrics of success to the context of FCS countries.

International Finance Corporation Management Comments

International Finance Corporation (IFC) management welcomes the Independent Evaluation Group's (IEG) synthesis report on The International Finance Corporation's Engagement in Fragile and Conflict-Affected Situations (FCS). This report is both timely and valuable, considering the development of World Bank Group's fragility, conflict, and violence (FCV) strategy. Management appreciates the engagement with IEG throughout the preparation of the report and believes that this report will provide a useful platform for further discussions and operational support.

Management appreciates IEG's recognition of IFC's efforts aiming to increase its impact in FCS. FCS are at the center of the IFC 3.0 strategy, and IFC set ambitious targets to deliver 40 percent of investment program in FCS and International Development Association (IDA) countries by 2030, of which 15–20 percent will be in IDA-FCS and low-income IDA countries. IFC has introduced several mechanisms aimed at supporting FCS, such as (i) expanded blended finance resources, including the IDA Private Sector Window; (ii) Creating Markets Advisory Window to support advisory services and upstream efforts; and (iii) FCS Africa/Conflict-Affected States in Africa platform, which helps enable investments in the Sub-Saharan Africa region. The Bank Group FCV strategy (in development) will build on these efforts and identify processes, programming, personnel, and partnerships that will enable the Bank Group to scale up its impact in FCS, with strong focus on the role of the private sector and IFC.

Management is pleased to see IEG's findings summarizing the positive development outcomes achieved in FCS countries. These include increased employment and income-earning opportunities, creation of upstream and downstream links with local businesses, revenue generation for governments, lowering of consumer prices through competition, increased access to infrastructure and services, and skills development. Management is also pleased that evaluations observed that IFC's due diligence standards have generally been high and did not find any significant adverse effects on the environment, local communities, or private sector development in FCS. The evaluation also points out that successful projects can have powerful demonstration effects in the FCS context. These findings are supported by specific examples of IFC projects with high development impact, present clear lessons for future interventions, and can serve as models to be replicated or adapted in other FCS contexts.

IFC welcomes recognition of the importance of blended finance instruments to support projects in FCS countries. Regarding IEG's assessment that blended finance helps support projects with perceived as high financial risks but does not provide significant

risk reduction in nonfinancial risk areas, it is important to note that a blended finance co-investment is not intended to, and cannot, eliminate all the risks of a project. Instead, blended finance co-investment is structured to reduce the financial risks just enough so that IFC and other institutions can invest on commercial terms. This also ensures that the use of blended finance meets the criterion of minimum subsidy, and the principles of seeking commercial sustainability and reinforcing markets. Management will continue to remain disciplined in its approach to using blended finance. Blended finance may sometimes only reduce financing costs, but when there is a market failure we need to address, it also de-risks projects through first-loss structures, such as for small and medium enterprise loan portfolio guarantees, guarantees of off-take and government obligations, and subordinated debt. It makes the senior debt less risky and can improve returns of risk capital in the form of equity. Analysis of IFC's blended finance portfolio has shown that the use of blended finance has enabled IFC to reach new clients, new markets, newer technologies and business models, and smaller and riskier projects. Other risk factors on the part of clients—such as weak corporate governance, lack of expertise, skills shortage, vulnerability to red tape and regulatory uncertainties—can be addressed through IFC advisory services.

Regarding the above point related to advisory services, we acknowledge that the report noted little variation in the share of investments with advisory assistance between FCS and non-FCS projects. As part of IFC 3.0, Advisory Services are helping prepare the ground for private sector investment and building a pipeline of bankable projects, especially in FCS and IDA countries. This advisory work is informed by Bank Group Country Partnership Frameworks, IFC's Country Private Sector Diagnostics and sector deep dives, and IFC country strategies and business plans. We are also increasing focus on enhancing the capacity of sponsors in FCS. The integration of advisory and investment operations in IFC industry departments has greatly enhanced our efforts to identify the upstream work necessary to facilitate IFC investment in FCS. For instance, Manufacturing, Agribusiness, and Services (MAS) has an "Advisory First" set of projects that aim to support sponsors and potential clients to allow them to become IFC investees within a three-year time frame. One such example is our effort to support Bovima, a meat processor and exporter in Madagascar. MAS Advisory Services worked with the client and engaged with World Bank colleagues to sufficiently develop the client and address market constraints to investment to enable IFC's investment in Bovima.

Management notes the difference between the investment commitment volumes and advisory spend presented by IEG and those calculated by IFC. This difference primarily stems from IEG's method (or calculation) not taking into account the regional and global projects, which constitute a significant share of IFC's investment and advisory portfolio in FCS. According to IFC calculations, FCS account for 23 percent of advisory projects,

20 percent of project expenditure, 5 percent of its own account investment commitment volume, and 8 percent of the project count on average over fiscal years (FY)10–19. Although the discrepancy between the IEG and IFC calculations does not fundamentally change the conclusions of the report, it is important to note that the regional and global projects represent an increasingly important share of IFC’s program in FCS, especially from the point of view of enabling the scale and knowledge sharing between FCS and non-FCS countries. To further illustrate this point, IFC has expanded its regional Investment and Advisory Services engagement with digital financial service (DFS) providers. Among 17 such active Advisory Services projects in FCS environments, a regional approach was critical in the Partnership for Financial Inclusion, which IFC supported together with the Mastercard Foundation in Sub-Saharan Africa. These engagements helped increase financial inclusion in challenging FCS markets, with a focus on serving underserved populations (for example, women, microentrepreneurs, and smallholders). During 2012–18, the program concluded (i) 15 client projects in nine markets, (ii) delivering 15.5 million new DFS users, (iii) 147,127 new agents, (iv) 1.3 million new savings accounts, (v) 69,000 new credit accounts, (vi) and \$766 million in monthly transactions. The lessons learned from this initiative in Sub-Saharan Africa are now being shared globally in other FCS and non-FCS markets.

Management agrees with IEG’s assessment that business development needs to be tailored to different typologies of FCS markets and different types of potential private sector clients in FCS countries. In this context, management fully supports IEG’s call for proactive upstream efforts and feasibility studies in FCS as a promising first step toward business development and has been putting in place tools and mechanisms to strengthen IFC’s upstream capabilities. The Country Private Sector Diagnostics, a new Bank Group diagnostic tool, represent an important step in this direction by identifying key opportunities and challenges that the private sector faces in FCS countries. IFC has also developed new upstream units housed in the respective industry departments, and their goal is to support private sector-led, market-based initiatives linking policy reform, advisory, investment, and mobilization to deliver an integrated country-specific solution. Other efforts include conducting an increasing number of diagnostic and market assessments in FCS. Under the new Advisory Services project type known as Diagnostic and Scoping (D&S), IFC staff have launched 26 D&S projects between July 2018 to August 2019 to better understand client-specific and marketwide constraints in FCS environments covering sectors ranging from airports to affordable housing to wastewater and cocoa production. These FCS projects represent 31 percent of the total D&S projects approved in that period.

Management welcomes IEG’s suggestion of aligning internal incentives and performance metrics with IFC’s strategic objectives for increased FCS engagement.

Management has already undertaken several steps in this direction. To better support the implementation of IFC 3.0, including scaling up in IDA countries and FCS, IFC has aligned its Corporate Scorecard (CSC), Vice Presidential Unit key performance indicators, and other incentive mechanisms. Its new CSC has two volume targets related to FCS, aligned with its capital increase commitments by 2030: (i) “IDA-17 + FCS as a percentage of LTF [long-term finance] Own Account Commitments”; and (ii) “IDA17-FCS & LIC-IDA17 as a percentage of LTF Own Account Commitments.” In addition, the CSC includes a volume indicator related to the usage of the IDA Private Sector Window. These CSC indicators subsequently cascade into key performance indicators.

Furthermore, IFC’s flagship Corporate Awards Program was redesigned to support the alignment of operational performance with organizational priorities, including FCS delivery. In FY19, about 40 percent of Corporate Awards were allocated to FCS projects. IFC is also leveraging nonfinancial drivers that are known to drive staff’s motivation, particularly career and developmental opportunities. IFC launched a new competency framework, including essential competencies to deliver IFC 3.0, and defined specialized career streams at senior levels, which include upstream delivery. Delineating specialized skill sets and job requirements will enable the alignment of rewards mechanisms, as these can be tailored to reward a broader spectrum of deliverables compared with rewards solely for the closing of transactions.

IFC recognizes the importance of having the right staff in the right places to support IFC’s delivery in FCS markets. IFC’s overall staffing strategy in FCS locations is managed through a mix of in-country presence and a hub model. This approach leverages the critical mass and execution capabilities of hub locations and facilitates knowledge transfer and teamwork for better delivery. Over the next several years, IFC plans to increase the number and level of skilled, experienced staff in the field in or near FCS, supported by specialized training and skills development. In FY20 alone, IFC plans to open new offices in nine countries in Sub-Saharan Africa, several of which are FCS. To increase presence in the field for developing private sector investments in FCS countries, IFC will also leverage World Bank country staff, in particular in countries with no IFC presence. For example, a recently signed memorandum of understanding between IFC and the World Bank allows the World Bank to fulfill IFC functions in six pilot FCS Africa countries where IFC does not have a field presence. This will allow for expanded in-country representation to develop the strong relationships required to identify and engage sound local private sector sponsors. In the context of training and knowledge management, we would also like to highlight a new course for investment officers entitled “Tools for Investing in FCS/LIC [low-income country] IDA,” which consolidates all the key tools available to support investing in these markets and is a key resource for IFC investment staff working in FCS.

Finally, management appreciates IEG's recognition of the challenges related to leveraging the private sector for sustainable development in FCS countries, including financial and nonfinancial risks related to investing in difficult operating environments. Private sector projects in FCS environments have high financial risks related to political and conflict situations, market uncertainty, and high costs related to security issues, long project gestation, and, frequently, small project size. To balance these risks with high development impact of FCS projects, IFC management intends to formalize the portfolio approach to profitability and development impact. Under the portfolio approach, IFC profitability and development impact are evaluated at the portfolio level, allowing for a greater range of investments outcomes at the individual project level. This approach will be formalized to translate the concept into special targets for investment staff and ensure that investment incentives are aligned with the forthcoming FCV strategy. FCS projects are also subject to nonfinancial factors associated with sponsor integrity; environmental, social, and governance issues; conflict potential; and general development challenges. Although these risks can be partially addressed through programming, such as a planned expansion of IFC's environmental, social, and governance advisory program for local capacity building, all risks cannot be mitigated. A broader discussion with Bank Group stakeholders will be needed to increase understanding of these risks and develop appropriate risk parameters.

1. Background and Context

Fragility, conflict, and violence (FCV) pose a major challenge for development and for reaching the Bank Group's twin goals. The incidence of conflicts, fragility and related humanitarian crises (such as forced displacement) has increased in recent years, threatening progress in achieving the twin goals and the Sustainable Development Goals (World Bank Group 2018a). According to Bank estimates, by 2030, about 50 percent of the global poor will be concentrated in fragile states. Fragility is linked to low human development indicators, low economic growth and a lack of social progress (World Bank 2014a). Making progress in fragile and conflict-affected situations (FCS) and learning from what works is therefore essential to advance toward the twin goals by 2030.

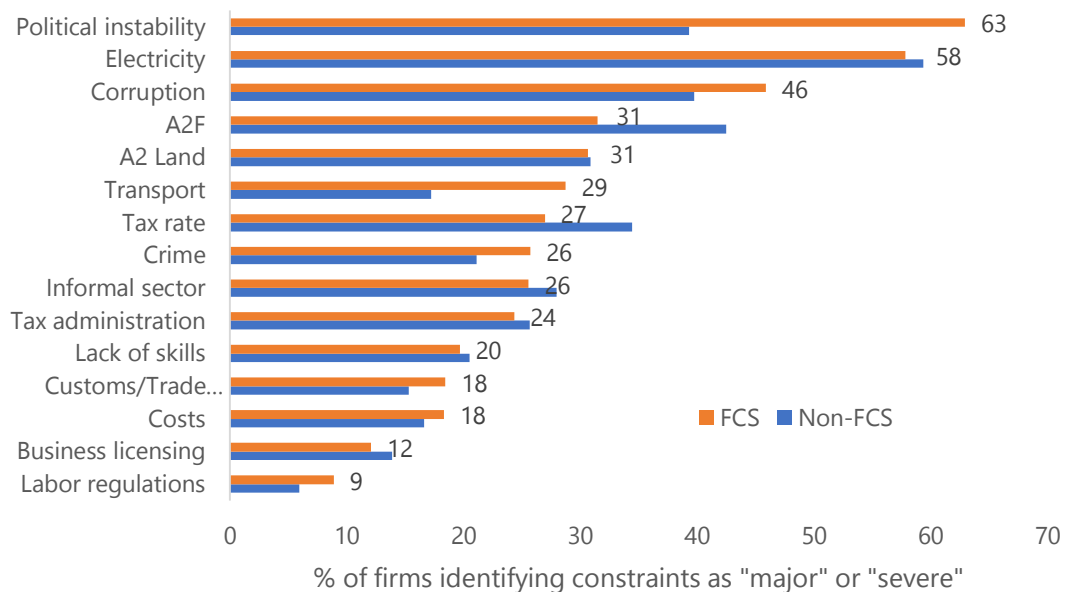
Support for FCS is a central part of the World Bank Group's current agenda. Under the 2018 Capital Increase Package, the Bank Group emphasized its continued efforts to help address challenges in FCS.¹ Following the World Development Report 2011: Conflict, Security and Development, the Bank Group refined its approach in FCS to include identifying opportunities to break the cycles of violence and fragility (World Bank 2011); more attention to jobs and private sector development; and realignment of internal risk management.² The Bank Group is currently preparing a "Fragility, Conflict, and Violence Strategy" that will be presented to the Board in fiscal year (FY)20. It is expected to define an approach to supporting the private sector in FCV contexts.

Enabling appropriate private sector activities is a means to break free of the "fragility trap" that impedes progress on development. Definitions of fragility broadly recognize a set of reinforcing conditions that create a "fragility trap" that impedes or reverses progress on development. These conditions can include civil or international conflict; lack of government legitimacy; lack of government authority to ensure security and the rule of law; deficiencies in governance structures and institutions; lack of state capacity to deliver basic infrastructure and social services; and a poor business environment and lack of private sector activity that inhibit income-earning opportunities.³ FCS economies may consist of a formal economy (which can be highly disrupted), the informal economy, and the war economy. Recent research suggests that regardless of the root causes of fragility or conflict, the challenge is to develop solutions that can break the cycle and that "there need be no logical connection between whatever initiated this entrapment and viable means of escape from it."⁴ Enabling appropriate private sector activity is a potential entry point to help break the fragility trap by promoting economic growth; creating local employment and other income-earning opportunities; generating government revenues; and delivering goods and services.⁵ The context of fragile states, from understanding the drivers for conflict and incentives to peace, and the nature of

the economies, is critical to identifying opportunities and risks for private sector development.

Several factors impede private sector activity in FCS. Of the bottom 30 economies on the World Bank's 2019 Doing Business ratings, 18 are FCS. IEG analysis has identified several factors that constrain private sector activity in FCS countries (figure 1.1).⁶

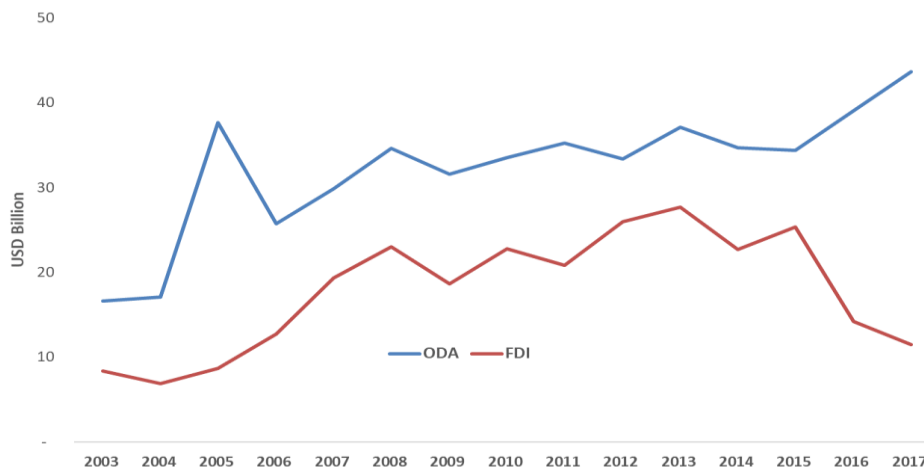
Figure 1.1. Leading Constraints to Private Sector in FCS countries



Source: Independent Evaluation Group, *IEG Insights: Private Sector in Fragile and Conflict-Affected States*. Based on World Bank Enterprise Surveys (2006–11; comprising survey results from 46 countries).
Note: FCS = fragile and conflict-affected situations.

Foreign investment flows to FCS countries account for a small share of global foreign direct investment (FDI) and are concentrated in resource-rich countries. FDI flows averaged about \$18 billion per year across all FCS countries (based on FY18 classification) between 2003 and 2017. Unlike other developing countries, FDI flows to FCS countries remain below official development aid flows (figure 1.2). They are also highly concentrated in resource-rich countries. Overall, 3 percent of the global FDI flows to developing countries are to FCS countries, slightly above the share of FCS economies' gross domestic product (2.5 percent). The top 10 recipient FCS countries accounted for 55 percent of the total FDI in FCS countries.

Figure 1.2. Official Development Aid and Foreign Direct Investment Flows to Fragile and Conflict-Affected Situations



Sources: World Development Indicators and Independent Evaluation Group staff calculations.

This synthesis report takes stock of available evaluative evidence regarding the effectiveness of interventions by the International Finance Corporation (IFC) in FCS. The synthesis is intended to be an input to a future comprehensive evaluation on the subject. It identifies some issues, lessons and drivers of performance based on available evidence, and knowledge gaps that a future evaluation might address. It aims to inform IFC's strategy in FCS as IFC seeks to scale up its activities in FCS countries as part of its commitments under the Capital Increase Package. The report also seeks to provide inputs for the Bank Group's FCV strategy currently being developed on the Bank Group's role in engaging the private sector in fragile situations.⁷ The report uses the harmonized list of FCS. This list is updated every year, and its composition has shifted over the period of review, with some countries graduating and others entering or re-entered the list (see appendix B). For its analysis, IEG has classified IFC operations as FCS based on the year of commitment, unless otherwise indicated.

2. IFC's Engagement in FCS since 2003

Evolution of IFC's Strategy, Approach, and Engagements in FCS

IFC has refined its approach to FCS over the past decade.⁸ IFC first identified FCS as a strategic priority in FY08, and subsequent corporate strategies show a progression of its approach to engagement in FCS. The *IFC Road Map FY09–11* emphasized infrastructure, agribusiness, financial markets for women and small and medium enterprises, health, and education in fragile and conflict-affected environments (IFC 2008). In 2012, IFC formulated its first FCS strategy, aiming to increase its own-account investments in FCS by 50 percent by 2016. Subsequent strategies further integrated FCS into IFC's core strategic priorities, emphasized the importance of jobs, and introduced targets to step up operations in FCS. Overall, earlier strategies did not provide much specificity on how IFC would achieve its strategic objectives in FCS. FCS remain a priority in IFC's current strategy, IFC 3.0. IFC's latest strategy document (FY20–22) has emphasized the implementation of IFC 3.0 in FCS countries and reiterated its FCS commitments stated in the Capital Package.

To support its engagement in FCS, IFC has introduced several initiatives and special instruments. IFC established a small FCS Coordination Unit to harmonize FCS efforts within IFC, and work with the World Bank, the Multilateral Investment Guarantee Agency, and external parties. In addition, an FCS Africa unit manages IFC's FCS Africa Program, including the Conflict-Affected States in Africa Program—a donor-supported initiative focused on creating enabling conditions for private sector in Africa. Under its current 3.0 strategy (FY17), IFC has introduced several mechanisms aimed at supporting FCS, such as Creating Markets (which offers sector reform, standardization, building capacity, and demonstration to expand investment opportunities in key sectors); de-risking (Private Sector Window, guarantees, blended resources); and the Creating Markets Advisory Window and other upstream support to project preparation.⁹

In the 18th Replenishment of the International Development Association (IDA), IFC introduced an IDA Private Sector Window (PSW) to support projects in higher risk markets, including FCS. The PSW provides up to \$2 billion in three IFC relevant facilities: The Risk Mitigation Facility, Local Currency Facility, and Blended Finance Facility. In addition, recent innovations include a Risk Envelope, allowing IFC to support projects outside IFC's normal risk tolerance; and the Creating Markets Advisory Window to support advisory services and capacity building to complement the PSW. In FY19, IFC created new Global Upstream Units with the intention to support the implementation of IFC 3.0 market creating activities and pipeline development. Finally, IFC has begun to cover new emerging areas related to fragility, such as the role of the

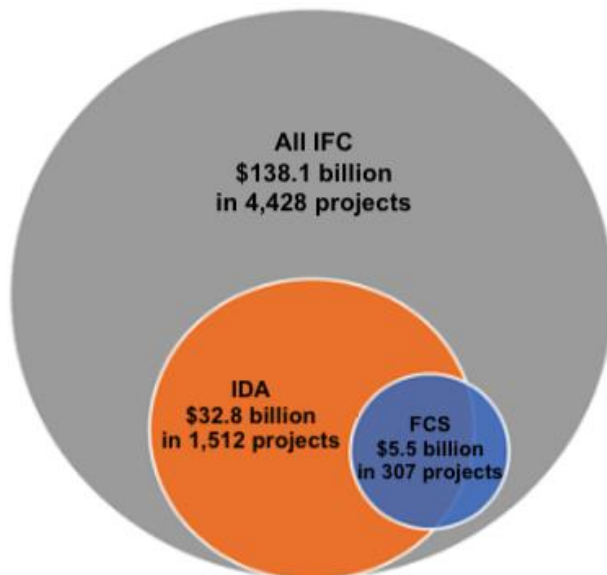
private sector in forced displacement. Many of these initiatives are recent and their outcomes have yet to be evaluated.

In FY18, IFC committed to an ambitious scale-up of its business program in IDA and FCS countries. As part of the 2018 Capital Increase Package, IFC committed to deliver 40 percent of its overall business program in IDA countries and FCS, and 15–20 percent in low-income IDA and IDA FCS countries, both targets to be achieved by 2030.¹⁰ These targets imply a significant scaling up of IFC's business volume in high-risk environments compared with current levels of activity given overall targets for IFC's business growth over this period.

IFC's Portfolio in FCS

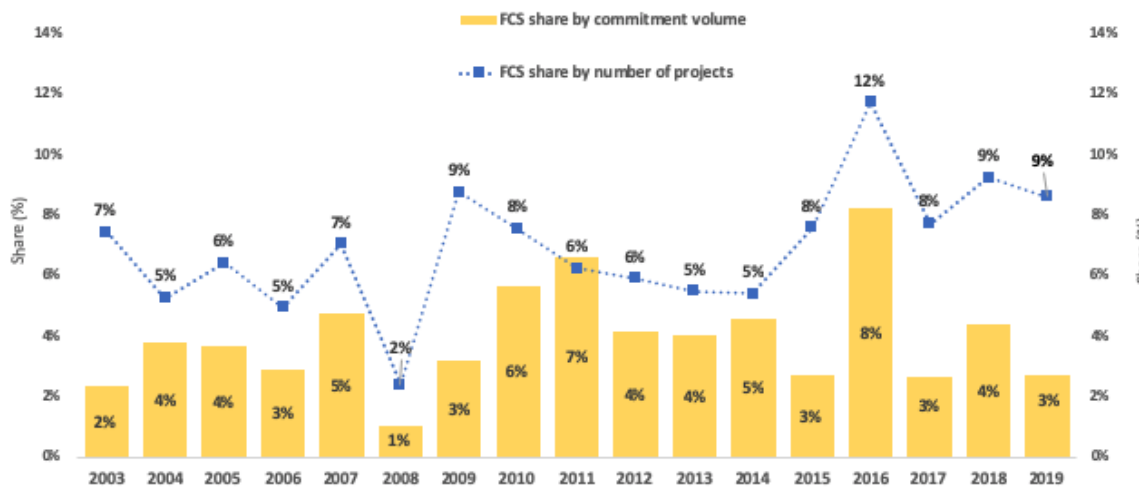
IFC's investment volume in FCS is modest and has not shown an increasing trend over the last decade. In FY10–19, IFC's long-term commitments for its own account in FCS averaged \$420 million per year, or 4.5 percent of its total commitments. This represented an increase over its commitments in FCS in FY03–09, which averaged \$200 million per year, or 3 percent of its total commitments. Since then, however, there is no clear increasing trend in IFC's FCS portfolio. Commitments have been volatile due to intermittent large projects in FCS countries, and due to changes of FCS country classification between commitment years. By number of projects, 7.5 percent of IFC's total projects in FY10–19 were in FCS (figures 2.1 and 2.2).¹¹

Figure 2.1. IFC's investments in FCS remain modest (FY03–19)



Source: International Finance Corporation and Independent Evaluation Group staff calculations.

Figure 2.2. IFC Commitments in FCS Countries



Source: International Finance Corporation and Independent Evaluation Group.

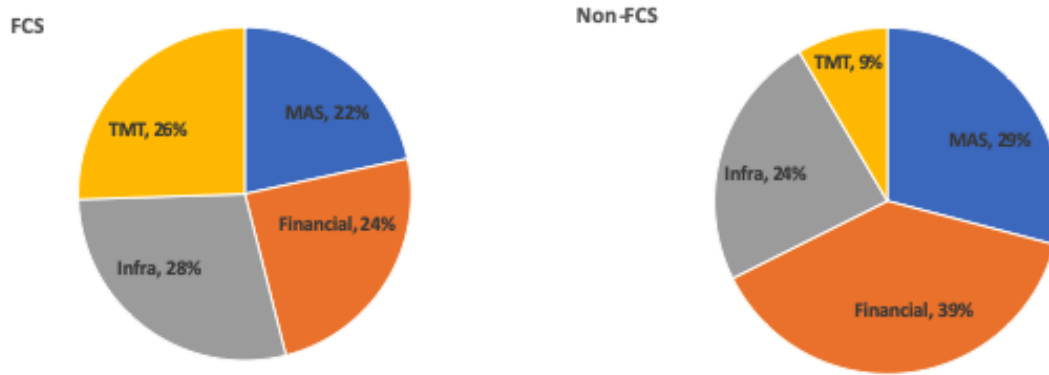
Note: IFC commitment volumes include long-term financing only; IFC project numbers exclude short-term financing instruments, Rights Issues, and Swaps. Independent Evaluation Group data on commitments and project numbers also exclude regional or global investments, which may partly cover FCS countries. FCS = fragile and conflict-affected situations; IFC = International Finance Corporation.

In addition to long-term commitments, IFC supports short-term trade finance facilities and mobilizes capital from third parties. Based on a preliminary IEG review of IFC databases, during FY10–19, 4.3 percent of IFC’s short-term finance for trade finance was in FCS.¹² IFC mobilized additional finance through its B loan program, parallel loans, the Managed Co-Lending Portfolio Program, and other traditional sources of mobilization.¹³ Mobilization in FCS countries accounted for about 10 percent of IFC’s traditional mobilization in FY10–19, a share that is driven by one megaproject for which significant third-party funds were mobilized in FY18.

IFC investments in FCS were evenly distributed among industry groups. By commitment volume, infrastructure and natural resources is the largest sector of IFC investment in FCS, with 28 percent of commitments in FY03–19 (compared with 24 percent for non-FCS countries; figure 2.3). Telecom, Media, and Technology (TMT) was the second-largest industry group with 26 percent—significantly higher than for non-FCS where TMT accounted for 9 percent. By contrast, FCS countries had less IFC activity in the financial sector (24 percent) compared with non-FCS (39 percent). By number of projects, a more conventional distribution typical of the non-FCS portfolio emerged: the financial sector accounted for 39 percent, and the TMT project share was 12 percent – indicating smaller financial sector investments (for example, in

microfinance institutions), and larger TMT investments (especially in telecom), respectively.

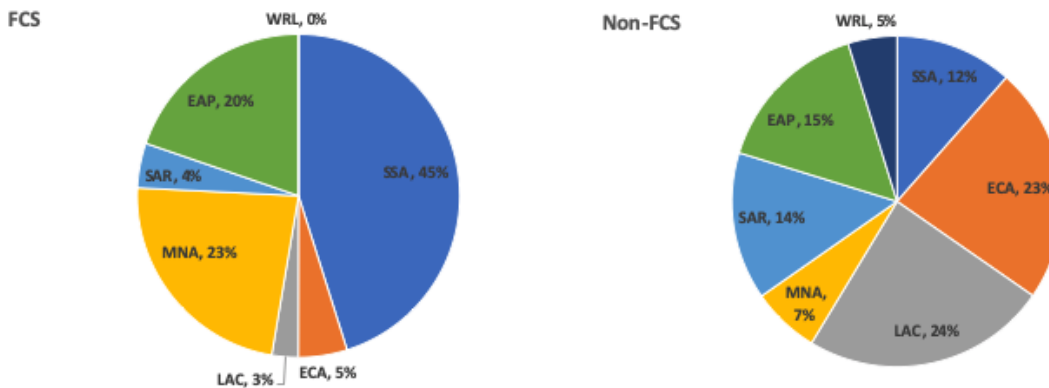
Figure 2.3. International Finance Corporation Investments by Industry Group, Commitment Volume in FY03–19



Source: International Finance Corporation and Independent Evaluation Group staff calculations.

IFC's commitments have been concentrated in the Africa region and among resource-rich countries. By region, the portfolio is heavily focused on Africa (45 percent of commitments), followed by Middle East and North Africa (23 percent) and East Asia and Pacific (20 percent), broadly reflecting the regional breakdown of the FCS list of countries (figure 2.4). Over half of IFC's commitments (52 percent) to FCS went to resource-rich economies (19 countries). Landlocked nations received 10 percent and small island nations 8 percent of overall FCS commitments.

Figure 2.4. International Finance Corporation Investments by Region, FY03–19

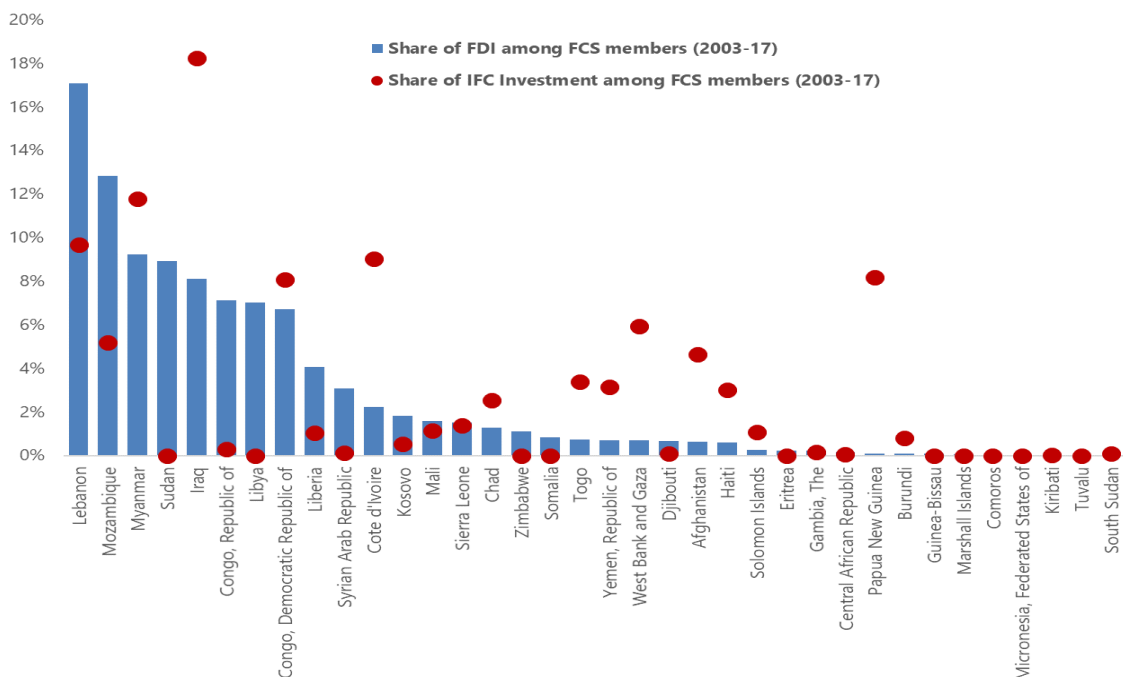


Source: International Finance Corporation and Independent Evaluation Group and IEG staff calculations.

Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; FCS = fragile and conflict-affected situations; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.

IFC's commitments have been in FCS countries that already attract relatively high levels of FDI. The top 10 (of 36) FCS countries receiving IFC investments in FY03–17 account for 84 percent of IFC's total in FCS. These countries include Iraq, Myanmar, Lebanon, and Côte d'Ivoire (figure 2.5). Sudan and the Republic of Congo receive high FDI flows, but low levels of IFC investment. By contrast, the West Bank and Gaza, Afghanistan and Papua New Guinea are significant for IFC investments but do not receive high FDI flows overall.

Figure 2.5. FCS Share of International Finance Corporation Investments and FDI



Source: International Finance Corporation, World Development Indicator, and Independent Evaluation Group and staff calculations.

Note: FCS = fragile and conflict-affected situations; FDI = foreign direct investment.

IFC FCS investments have some distinct characteristics:

- **Smaller project size:** Investments in FCS were on average smaller than for the rest of IFC – less than two-thirds for non-FCS (\$16 million per investment compared with \$27 million). Financial sector (average size \$9 million) and manufacturing, agriculture and services (\$12 million) investments were significantly smaller in FCS than in non-FCS.
- **More loans than equity:** The share of equity investments is smaller in FCS (4.5 percent of commitments) than in non-FCS, instead relying more on loans.

Advisory services are a key modality of IFC's engagement in FCS. Advisory services have been more highly concentrated in FCS compared with IFC investment operations. Based on IEG's review of IFC's databases, about 14 percent of advisory services expenditures and 16 percent of projects during FY10–18 have been in FCS¹⁴, and the focus of the Advisory Services program on FCS has increased over time. Advisory Services remain focused on business enabling environment activities with governments. While overall 57 percent of IFC advisory services are directed at private firms, for FCS countries, this share is 47 percent.

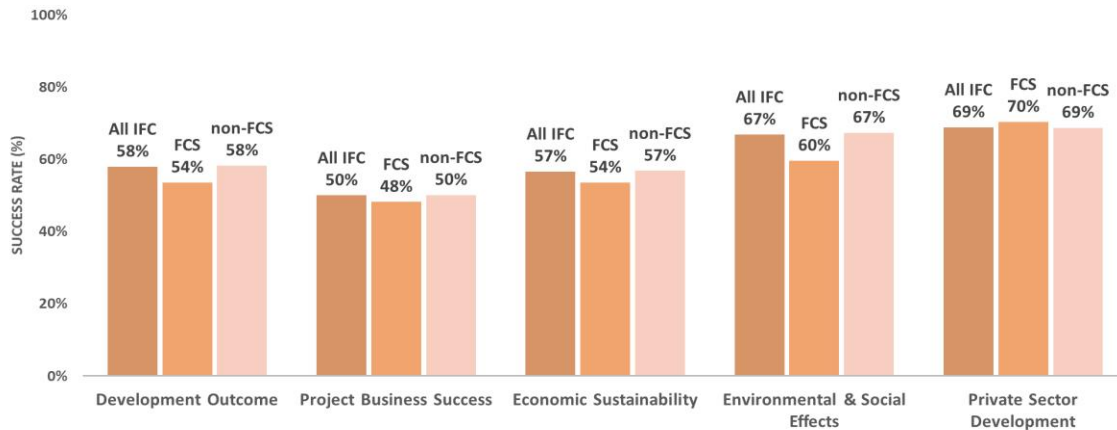
3. Results of IFC Activities in FCS

Results from the Evaluated Investment and Advisory Portfolio

The evaluation database comprises 56 IFC investment projects in FCS that were evaluated between 2005 and 2018.¹⁵ The projects were approved from FY03 to FY15, prior to the commitment to scale up FCS operations as part of the Capital Increase Package. By region, close to half the projects (43 percent) were in Sub-Saharan Africa, followed by East Asia and Pacific (23 percent). The projects were nearly evenly divided between financial markets projects (27) and nonfinancial market projects (29). Thirty-four projects were supported with IFC loans and 15 with IFC equity investments.

There is no significant difference in development or investment outcome ratings between projects in FCS and non-FCS countries. Of the IFC FCS investments evaluated between 2005 and 2018, 54 percent of projects had mostly successful outcome ratings, compared with 58 percent in non-FCS (figure 3.1). Among the more recently evaluated investments (2015–18), FCS investments had stronger development outcome ratings (60 percent) compared with the evaluated non-FCS portfolio (44 percent). Similar patterns emerge for components of development outcomes, including project business success (48 percent) and environmental and social effects (60 percent), which closely track the performance of IFC's non-FCS portfolio. The highest rated aspect of performance of the FCS portfolio is private sector development impacts (figure 3.1). FCS and non-FCS projects also achieved similar investment outcome ratings, which reflect the extent to which IFC's returns meet accepted benchmarks: 64 percent had satisfactory outcomes in FCS, compared with 68 percent in non-FCS. Paragraphs 3.12 ff. discuss factors contributing to the similar development outcomes in FCS.

Figure 3.1. Share of Development Outcomes Rated Mostly Successful or Above



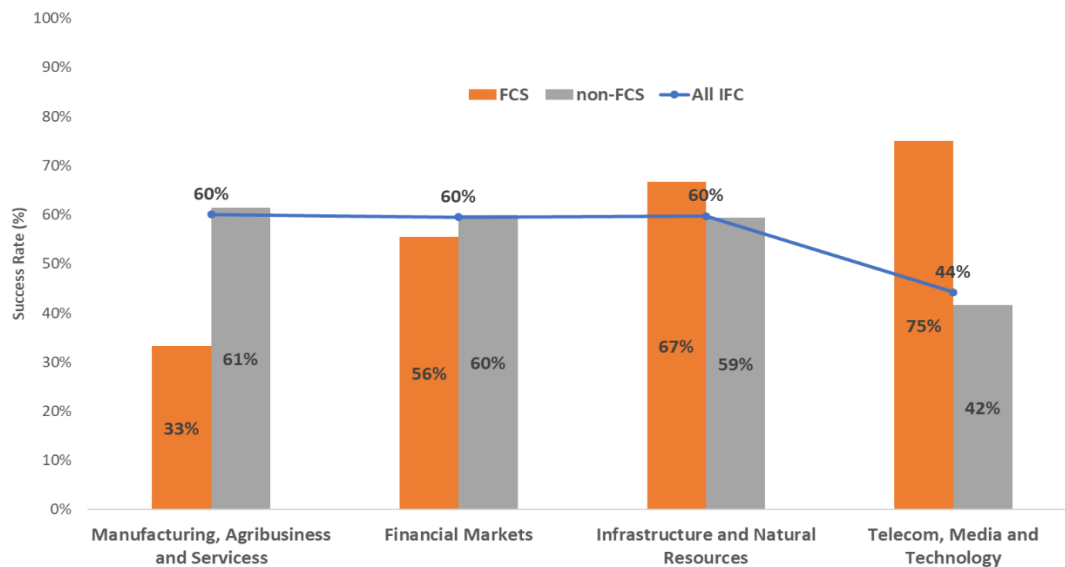
Source: Independent Evaluation Group ratings and staff calculations.

Note: FCS ratings are based on 56 evaluated projects, non-FCS on 824, and All IFC on combined 880 evaluated projects. FCS = fragile and conflict-affected situations; IFC = International Finance Corporation.

These results indicate that it is feasible to support developmentally and financially successful projects in complex and risky environments in FCS countries but may also reflect limitations of IFC’s current business model, including policy and risk parameters. The evaluated portfolio reflects IFC’s approach, selectivity criteria, and risk appetite and management prevailing when the projects were approved. While this approach has been effective in ensuring results are on par with the non-FCS portfolio, it may also indicate constraints to IFC’s ability to scale up business in FCS given flat commitment volumes since FY10.

Projects in financial markets and nonfinancial markets achieved broadly similar results. By industry group, projects in infrastructure and natural resources (67 percent of six projects rated mostly successful and above), and in telecom, media and technology (75 percent of eight projects) performed well, while those in Manufacturing, Agribusiness, and Services (MAS) faced challenges trying to meet their development objectives (33 percent of 15 projects) (figure 3.2). Results in financial markets investments have been on par with IFC success rates in FCS overall: 56 percent (of 27 projects) were mostly successful in FCS compared with 60 percent in non-FCS. Although some telecommunications projects were affected by difficulties related to fragility and conflict, the projects generally performed well. An evaluation in Chad noted that, “mobile network operators are particularly resilient in conflict and postconflict zones, both in terms of preservation of physical infrastructure and commercial performance.” The low performance of MAS projects was due to several projects failing to meet their financial objectives at the time of evaluation, especially in tourism and agribusiness.

Figure 3.2. Share of Development Outcomes Rated Mostly Successful or Above by Industry Group



Source: Independent Evaluation Group ratings and staff calculations.

Note: Ratings for FCS are based on 54 evaluated projects: 15 in Manufacturing, Agribusiness, and Services; 27 in Financial Markets; 6 in Infrastructure and Natural Resources; and 8 in Telecom, Media, and Technology; ratings for non-FCS are based on 824 projects: 293 in Manufacturing, Agribusiness, and Services; 282 in Financial Markets; 153 in Infrastructure and Natural Resources; and 96 in Telecom, Media, and Technology. FCS = fragile and conflict-affected situations.

These results were achieved despite higher country risks in FCS contexts, including political and security risks. In some cases, regulatory risks were mitigated by the presence of the World Bank (for instance in telecom) and in other cases by the presence of IFC itself through its implied risk cover as a member of the Bank Group. In addition, the higher cost of projects in FCV may indicate more intensive appraisal and due diligence efforts. In several cases, risks were not mitigated such as in the tourism industry where projects failed to meet their financial benchmarks in part due to factors related to fragility including the occurrence of violence, or political instability.

Patterns in development outcomes of IFC-supported investment projects in FCS.¹⁶ The main development benefits of IFC-supported projects include the following:

- Projects contributed to increased employment and income-earning opportunities. All evaluated projects resulted in some direct and indirect job creation, which is particularly important in fragile states and countries emerging from conflict where economic opportunities are scarce. The manufacturing projects showed significant job creation. Cement plants in the Republic of Yemen and Nigeria, for example, created several thousand jobs each, directly and through related activities such as transportation. Hotel investment projects created

approximately 200 to 800 direct permanent jobs each, and they had substantial indirect employment effects in industries such as tourism operators, restaurants, and transportation services. In the mobile telecom industry, along with some direct job creation, substantial indirect employment and income-earning opportunities were created through the distribution networks for handsets, prepaid cards, and ancillary products that comprised individuals/freelancers and retail dealers and distributors.

- Upstream and downstream links with local businesses in nonenclave projects. Most of the projects reviewed developed some upstream or downstream links with local businesses. All hotel investment projects, for example, purchased goods and services from local suppliers, including farmers; a brewery in Lao People's Democratic Republic developed a farmer outreach program for several thousand farmers; mobile telecom operators established both upstream links, such as construction and maintenance of base stations, and switching sites and extensive downstream links through their retail distribution networks.
- For enclave projects, especially in the minerals sector, generation of government revenues was the main development benefit. The financially successful investments in FCS contributed to government revenue generation. In the mineral investment in Cameroon, for example, as with most natural resource projects, the enclave nature of the industry meant that the primary development benefit was in the form of increased government revenues. Profitable mobile telecom projects also generated substantial revenues for the host governments in the form of tax revenues, license fees, and other levies. However, the extent to which development benefits materialize depends on how well government revenues are used, which in turn depends on the quality of governance and the capacity of the state which is typically weak in FCS environments (for example, see experience of the Chad-Cameroon pipeline).
- Successful projects can have powerful demonstration effects in the FCS context. Following the successful turnaround of a privatized state-owned enterprise in an area affected by militant activity in Nigeria, for example, the south-south investor subsequently made additional investments in other industries in the country. Similarly, after a successful investment in a cement plant in Togo, a foreign investor made additional investments in downstream operations in the country. The Yangon Shangri-La hotel helped pioneer a framework for foreign debt financing in Myanmar shortly after the country opened its economy. An Iraqi container terminal project was a high-visibility, successful private sector investment in a conflict-affected environment. A project that successfully

introduced a financial institution for cocoa cooperatives in Côte d'Ivoire was replicated in other African countries.

- Lower consumer prices through increased competition. Several projects in FCS countries resulted in lower prices for consumers due to increased competition in the industry. This was the case, for example, in several cement and chemical manufacturing projects where cheaper local production displaced more expensive imports. All mobile telecom projects helped reduce average costs of service for consumers, improve the quality of services provided, and introduce innovative products because of technological progress and increased competition in the industry. In one case, however, government protection in the industry and the monopoly position of the company caused a rise in consumer prices and made consumers worse off in the intermediate term, highlighting the risks of supporting a protected industry in an uncompetitive environment.
- Skills development is both a requirement and an outcome in the FCS context. In several projects, the investee companies placed an emphasis on local staff training due to both the lack of qualified local labor and difficulties in attracting expatriate staff into FCS environments. In the mobile telecom operation in Chad, for example, employees received basic training, in-house technical training, or advanced technical training in universities in Europe. The Port-au-Prince Marriott hotel developed a proactive strategy to recruit and train young people from low-income communities. This involved identifying people in poorer neighborhoods with “good attitudes” but minimal skills and limited employment opportunities, providing them with extensive training.
- FCS offers investors opportunities to first movers in building critical business infrastructure at key periods. Several hotel projects helped increase the number of international-standard hotel rooms the absence of which represented a constraint to doing business. The Kabul Serena hotel, for example, was the first international-standard hotel established in Afghanistan since the 1970s capable of serving the international business community. The Yangon Shangri-La project was built shortly after Myanmar opened its economy to the rest of the world, when Yangon faced an acute shortage of hotel rooms. The Port-au-Prince Marriott was constructed in the aftermath of the 2010 earthquake that destroyed 50 percent of hotel rooms in the city. In Afghanistan’s mobile telecom market, an IFC-supported mobile phone company expanded service to cover 72 percent of the population; and in Sierra Leone, the telecom company established services in remote regions that previously had no access to mobile services.

While evaluations did not observe any significant adverse effects on local communities, or private sector development from IFC investment projects in FCS, environmental and social effects (E&S) issues in MAS and telecom projects require more attention. IFC's due diligence and standards were generally strong and there was limited evidence of projects having detrimental E&S effects or governance quality issues. Among the infrastructure and natural resource development projects, for example, all projects had fully satisfactory E&S ratings except for two with 'partly unsatisfactory' ratings due to deficiencies in complying with audit, training, or annual reporting requirements. However, the E&S performance of MAS and telecom projects in FCS was below that of projects in non-FCS. A recent review of investments evaluated in 2012–18 points to client capacity issues in FCS contexts and suggests enhanced engagement with clients, including hands-on training, and third-party E&S consulting for clients with insufficient capacity.

Evaluated IFC Advisory Services interventions in FCS performed below those in non-FCS. Forty-seven percent of the 79 evaluated advisory services interventions in FCS achieved mostly successful ratings or above for their development effectiveness compared with 56 percent in non-FCS countries. Less than one-third of advisory services with links to investments supported upstream work (for example, a transaction structuring or a feasibility study). Success rates did not differ between advisory services with governments versus those for private firms.

IEG evaluations have found that IFC investments helped catalyze microfinance institutions in FCS countries. Past evaluations found that IFC's investments in microfinance institutions and its integrated delivery of advisory projects with investments were crucial in helping start-up of operations. Such support was critical to establish the microfinance institution, capacity building for its staff, and the development of loan segments such as women's finance and small and medium enterprise lending (World Bank 2014a). The Africa Micro, Small, and Medium Enterprise Program supports upstream engagement with clients in the financial sector by providing the participating IFC client banks with expertise to grow their micro, small, and medium business. Under the program, participating financial institutions provided over \$1 billion in loans to their micro, small, and medium enterprise clients and helped 3,271 women entrepreneurs gain access to \$27.5 million in financing (IEG 2018).

However, a 2015 review of IFC support to greenfield microfinance institutions in Africa (covering both FCS and non-FCS countries) observed that none of the 10 investments covered reached their expected profitability targets. While most projects generated positive results after five years, the return generated was significantly lower than expected at Board approval (for an average return of 3 percent). In addition, the main

beneficiaries are middle-income individuals and micro entrepreneurs (mostly women) in cities. Only in a few countries are the institutions expanding their reach to lower income individuals and rural areas, and this is taking longer than expected. Funding (subsidies) from development finance institutions were the main source of financing for greenfield microfinance operations. The review indicates a dependency on continued development finance institution funding except for the strongest operations that achieved self-sufficiency. Most IFC-supported investments were among the top five microfinance institutions in their countries. The review also observed that few institutions gained significant market share and that more realism was required in defining expected profitability targets, development objectives and operational costs (World Bank 2015a).

While equity funds can be a suitable instrument to reach smaller investees and entrepreneurs in FCS, observations from a few evaluated funds indicate that they fell short of their expected development outcomes. The funds' main challenges have been the lack of good investment opportunities in the targeted small and medium-size enterprise segment, inability to raise additional funds to supplement IFC's investment in the Fund, the quality and integrity of investees, and limited exit strategies from investments. Evaluations of these projects suggest that small and medium-size enterprise-focused funds in FCS require high volume and extensive "hand-holding" and capacity building to investee companies, unlike equity funds in other country contexts. Furthermore, although meant to decrease currency risks, use of local currency can adversely affect the performance of \$ denominated portfolio valuations. While IFC has sought to address some of these challenges including through capacity building to Fund managers and investees, in at least one project the advisory component was found to be less effective, with only modest use.

Drivers of Performance

In some cases, risks related to FCV, which are inherent in FCS, had a decisive influence on project performance. Project Business Success ratings in FCS were generally on par with those in non-FCS countries. While the implementation of projects implies that sponsors were comfortable with the way FCS risks were mitigated, in some cases, however, factors related to fragility and conflict undermined the financial viability of the project. A hotel in Kabul, for example, was severely affected by continuing violence in Afghanistan, including the hotel becoming the target for insurgent attacks. In the Republic of Yemen, the operations of a cement plant were adversely affected by social unrest, political instability, and militia activity after 2011 that caused a decline in cement demand, reduced fuel availability, and constrained transport to markets. Operations of an oil refinery in Côte d'Ivoire were affected by disruptions in the delivery of crude oil

from Nigeria due to pipeline vandalism and civil unrest. In the West Bank and Gaza, operations of the mobile telecom operator were adversely affected by political instability, episodes of active conflict, and extensive delays arising from clearance requirements in Israeli-controlled areas.

Better results were associated with larger investment size and larger domestic markets—characteristics that are relatively scarce among FCS (see table 3.1 and appendix A). Within FCS, larger projects had better development outcomes, with 78 percent of projects larger than \$20 million in original IFC commitments having successful development outcomes, compared with 42 percent among projects less than \$5 million.¹⁷ A similar trend is observed for IFC's non-FCS portfolio. Investment outcomes were also better in larger projects (83 percent satisfactory in projects above \$20 million compared with 50 percent in projects smaller than \$5 million). Project size is not an exogenous variable but typically reflects other factors of success. For example, it may be the outcome of risk management decisions, as often project sponsors and investors reduce risk exposure by reducing the size of their investment. Larger projects may therefore indicate relatively lower risks and be associated with better outcomes. Or alternatively, investors may assess and prepare larger projects with greater care given the larger investment amounts at stake. Larger projects may therefore be associated with better work quality, a factor that has a positive influence on project outcomes independent of project size.

Projects in larger countries had better development outcome ratings. Sixty-eight percent of projects in countries with populations above 20 million had successful development outcomes compared with 38 percent successful in countries with populations of less than 5 million. Other country and project characteristics, such as Doing Business rankings, or whether the country was classified as resource-rich or not, did not account for differential performance of FCS investments. In sum, better results were associated with characteristics that are relatively scarce among the group of FCS countries, possibly limiting the opportunities for scaling up of effective approaches implemented in more favorable environments.

Strong client quality has supported positive outcomes but may also be indicative of risk aversion. The average quality of sponsors in IFC-supported investments in FCS is on par with the quality of sponsors in non-FCS countries, based on IFC's proprietary Credit Risk Ratings database. The presence of strong project sponsors may mitigate high country or market risks. The overall pattern may also indicate IFC's strict and uniform application of credit and other risk standards—operating within its business model. However, sponsor quality varies among sectors: Infrastructure and telecom involve strong sponsors—often multinational corporations that are well capitalized and with

significant experience investing abroad. Manufacturing clients had risk profiles close to the IFC average. By contrast, natural resources and agribusiness investments involve higher sponsor risks. While the strong quality of sponsors is evidence of prudent risk management, it may also imply a constraint in IFC's current business model regarding expansion in FCS. A detailed analysis of the association between client quality and results will be part of the scope of the planned thematic evaluation of the experience of IFC in FCS countries.

Table 3.1. Performance of IFC Investments

	Number (n=)	Development Outcome	Project Business Success	Investment Outcome
FCS	56	54%	48%	64%
Non-FCS	824	58%	50%	68%
All IFC	880	58%	50%	67%
By Region				
	Number (n=)	Development Outcome	Project Business Success	Investment Outcome
Sub-Saharan Africa	24	50%	46%	46%
Europe and Central Asia	6	33%	17%	100%
Latin America and the Caribb	2	50%	50%	100%
Middle East and North Africa	7	57%	57%	71%
South Asia	4	75%	75%	50%
East Asia and the Pacific	13	62%	54%	77%
By Investment Type				
	Number (n=)	Development Outcome	Project Business Success	Investment Outcome
Equity	16	56%	44%	31%
Loan	35	54%	51%	83%
Mix (incl. GT)	5	40%	40%	40%
By Commitment Size				
	Number (n=)	Development Outcome	Project Business Success	Investment Outcome
Below 5 million	24	42%	33%	50%
Above 20 m	18	78%	72%	83%
5-20 million	14	43%	43%	64%
By Population Size				
	Number (n=)	Development Outcome	Project Business Success	Investment Outcome
Below 5 million	13	38%	31%	62%
5 million to 20 million	18	44%	44%	83%
Above 20 million	25	68%	60%	52%

Source: Independent Evaluation Group ratings and staff calculations.

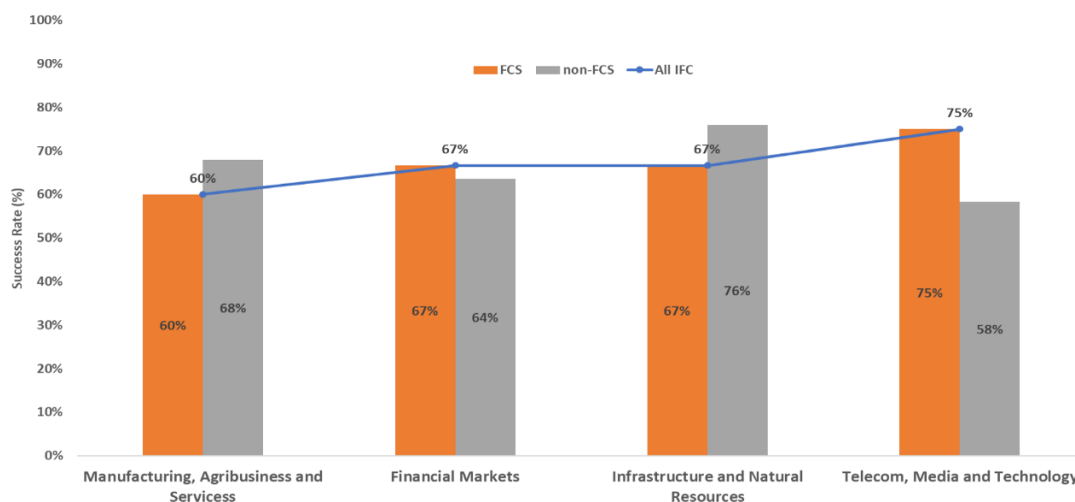
Note: Differences in ratings between FCS and non-FCS are not statistically significant.

Good work quality can have a higher payoff in FCS. IEG has consistently found that IFC's work quality, especially its upfront work on screening, assessment, and structuring, is strongly associated with development outcome ratings. The effect is stronger in higher risk countries and regions, suggesting higher potential payoff from improvements in internal work quality in those countries and regions.¹⁸ For the evaluated portfolio in FCS, IFC's upfront work quality (66 percent rated satisfactory or

higher) was on par with non-FCS countries (67 percent). Upfront work quality was weak in MAS FCS projects, but strong across other industry groups (figure 3.3).

Similarly, IFC’s role and contribution for the evaluated portfolio in FCS were on par with non-FCS, indicating IFC made unique contributions to most projects. Seventy percent of evaluated projects were rated satisfactory or higher in FCS (versus 68 percent for non-FCS). IFC’s role and contribution were particularly strong in financial markets, and telecom, media and technology but less so in infrastructure.

Figure 3.3. IFC Work Quality in Industry Groups



Source: Independent Evaluation Group ratings and staff calculations.

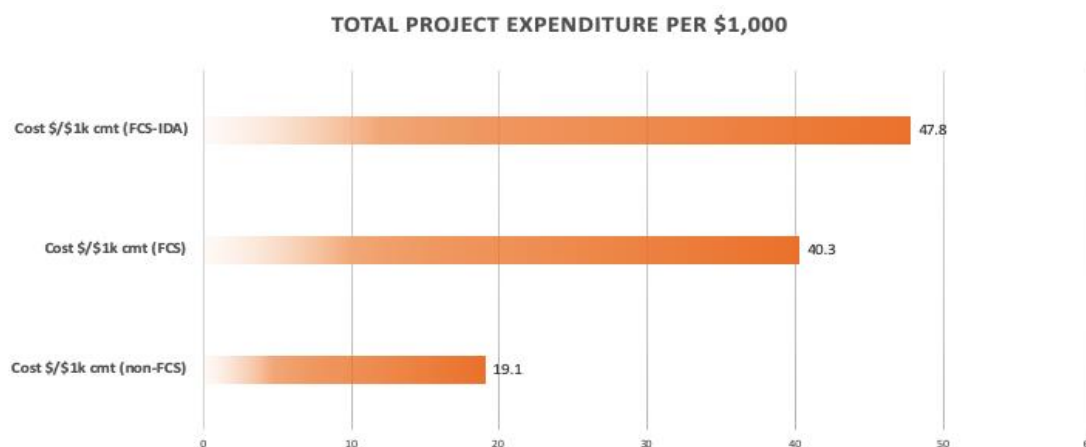
Note: ratings for FCS are based on 54 evaluated projects: 15 in Manufacturing, Agribusiness, and Services; 27 in Financial Markets; 6 in Infrastructure and Natural Resources; and 8 in Telecom, Media, and Technology; ratings for non-FCS are based on 824 projects: 293 in Manufacturing, Agribusiness, and Services; 282 in Financial Markets; 153 in Infrastructure and Natural Resources; and 96 in Telecom, Media, and Technology. FCS = fragile and conflict-affected situations.

An initial IEG review of IFC’s use of blended finance suggests the instrument can support projects perceived as high financial risk but does not provide significant risk reduction in nonfinancial risk areas. Projects supported blended finance involved high operational cost for IFC mainly due to their smaller project size. Blended finance is a potentially important instrument for IFC to deploy in FCS countries. The instrument involves strategic use of concessional funding to catalyze private sector investment. In FY10–18, IFC deployed \$929 million in concessional funds along with IFC’s own investment of \$3.5 billion in 169 projects in both FCS and non-FCS countries. A recent cluster review of several blended finance projects found that the instrument supported high-risk projects, the subsidy provided to project entities reduced their financial risk, and, in successful cases, had positive effects on the project’s ultimate beneficiaries. On the other hand, the review pointed out that (i) the blended finance instrument in itself was not enough incentive for a client to enter a new business in which risks were

perceived to be high; (ii) while blended finance can reduce the cost of financing, it did not “de-risk” projects per se as many intrinsic project risks beyond financial risks remain; (iii) returns to IFC from projects with blended finance were below expectations, partly due to underlying project characteristics such as smaller size and higher operational costs. IEG plans to review the use of the blended finance instrument specifically in FCS contexts as part of the more detailed forthcoming thematic evaluation.

Doing business in FCS is costlier for IFC than in non-FCS, affecting IFC’s financial “bottom line.” While investment outcomes of IFC projects in FCS were on par with non-FCS countries, indicating that IFC and other financiers were repaid and compensated for their investments, the cost of doing business in FCS for IFC is much higher than in non-FCS countries. Based on a preliminary IEG analysis of IFC cost data for FY15–19, for each \$1,000 in IFC commitments, the cost of appraising and supervising a project in FCS (\$40) is about twice that of a project in a non-FCS country (\$19).¹⁹ The cost is even higher for IDA FCS countries (\$48; figure 3.4). This analysis is consistent with IFC’s earlier review of project returns for FY11–15 showing significantly lower risk-adjusted return on capital for loans in Low-Income IDA and FCS countries than for IFC overall. The review identified higher operating costs to process and supervise projects in FCS as a major driver for the difference in costs—reflecting difficult business environments and relatively small loan sizes. Returns to IFC were negative across all industry groups in FCS, most strongly so for MAS projects (–21.9 percent).²⁰ The high operating cost may be a key constraint for IFC to scale up investment in FCS. A more systematic analysis of drivers of profitability will be conducted through a future thematic evaluation.

Figure 3.4. Total Project Expenditure (Cost per \$1,000 in IFC Commitments)



Source: International Finance Corporation and Independent Evaluation Group staff calculations.

IFC's advisory services showed a lack of identification of fragility-specific factors. While some activities were affected by fragility, IEG's Advisory Services project evaluations mainly identify generic drivers. Several evaluated Advisory Services projects highlighted the importance of capacity building and absorptive capacity in fragile and low capacity markets. Regarding assistance to Investment Climate reform, including through IFC advisory support, IEG evaluations conclude that reforming challenging business environments is a necessary condition in the medium term but insufficient to overcome constraints to private investment in FCS. Results of investment climate advisory work in FCS were mixed, often hampered by a lack of implementation of reforms due to capacity and political economy issues. In several investment climate advisory activities, projects were not sufficiently tailored to reflect the realities of FCS.

4. Lessons from IFC's Experience in FCS

Overall Strategy and Business Model

Adapting IFC's business model, instrument mix and risk tolerances to FCS contexts and to the characteristics of the private sectors in those countries can help scale up business opportunities for IFC. IFC has adjusted its strategy and introduced several new mechanisms and instruments to support business in FCS. Prior IEG thematic evaluations have concluded that IFC's business model, instruments, risk appetite and risk mitigation tools were not specifically adapted to work in FCS.²¹ Attracting private sector investment to FCS is a complex challenge, and a knowledge gap remains among development finance institutions and donors on effective approaches in supporting private sector development. Investments in FCS face not only political and security risks related to fragility and conflict, but also skills shortages, weak capacity of the private sector, and a lack of basic infrastructure services. Furthermore, the private sector in FCS has different characteristics compared with other emerging markets: it lacks capacity, size, sophistication, and is often informal. This suggests that assistance programs in FCS contexts require significantly adapting and tailoring donor support to the specific challenges and circumstances in those countries and markets.²² IFC has taken steps to enhance its capacity to engage in FCS and address these knowledge gaps. It has introduced new instruments and initiatives to respond to the challenge of scaling up business in FCS – for example the PSW in FY18. While it is too early to evaluate the effectiveness of these initiatives, they have thus far not led to a sustained increase in IFC's commitments in FCS.

Sponsors and Business Development

The range of potential private sponsors in FCS countries suggests different pathways to increasing business in FCS. Sponsors of IFC-supported projects in FCS have comprised different types of investors, including multinational companies, regional investors, the local private sector, and diaspora investors. This indicates that there are different pathways to increase a pipeline of clients and projects, including through effective use of existing client relationships and going beyond IFC's traditional pool of sponsors.

Proactive upstream efforts to identify and conceive feasible projects as a first step before attracting investors illustrate a promising business development approach for IFC in FCS. Prior to the Kabul Serena investment in Afghanistan, for example, IFC undertook a hotel market study in Kabul and then engaged with several potential sponsors on a variety of hotel projects before identifying the Aga Khan Fund for Economic Development as the best investment partner. Similarly, in the Access Bank Liberia investment, IFC funded a feasibility study on establishing a microfinance institution in

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Liberia, searched for and identified a suitable sponsor, and then helped attract other financiers to the project. Both these efforts resulted in pioneering investments in FCS: the first international-standard hotel in Afghanistan since the 1970s and the first microfinance bank in Liberia. Such proactive, upstream IFC efforts offer strong promise for IFC to help develop potentially viable investment opportunities with manageable risks to attract international investors into FCS.

Working with existing clients to enter a new FCS is another effective business development model for IFC engagement. A promising model has been for IFC to accompany an existing client into an FCS for the first time. This was the case, for example, for IFC investments in Afghanistan, Myanmar, Haiti, the Democratic Republic of Congo, Chad, Nigeria, and Tajikistan. The benefit for the sponsors included IFC's implied political risk mitigation; capacity to help negotiate with governments; industry know-how and technical expertise; and reputational advantages and hand-holding associated with IFC's E&S standards. For IFC, the risks associated with a high-risk FCS investment were mitigated with a strong international sponsor, often with experience in the industry in other countries, with deep pockets to withstand shocks, and with known governance and E&S practices.

Long-term strategic partnerships through 'repeat' clients can help achieve better outcomes in FCS. A recent IEG evaluation concluded that projects with repeat clients in high-risk country contexts perform better than those with one-off clients. Yet, the evaluation also concluded that IFC had only partially implemented its strategic client model, falling short in increasing the volume of quality business. Furthermore, the superior performance of repeat clients mainly reflects a selection effect rather than learning and capacity building on the part of the client through repeat projects.²³

Capacity Building

Given the low capacity environment in many FCS countries, more deliberate and intensive use of advisory services may be needed to enhance the capacity of some sponsors. Among evaluated IFC investments, IEG did not find much variation between the share of investments with assistance from advisory services for FCS versus non-FCS countries. This advisory support was focused on building client capacity, including strengthening corporate governance, training staff and managers, rolling out of new products such as housing finance or microloans, and strengthening internal risk management. Most of the linked advisory and investment activities were in the financial sector, followed by sustainable business advisory.

IFC's investments in funds suggest a need to ensure fund managers use grants to provide technical assistance to investee companies, and to have the required experience

and capabilities to manage a fund in challenging markets. Prior IEG evaluations observed that IFC lacked the resources and/or the strategic decision to offer firm-level capacity building to companies in FCS in which it had not yet invested, but which have the potential for private sector development or future IFC financial engagement.

Incentives and Staffing

Aligning internal incentives and performance metrics to IFC's strategic objectives can support increased engagement in FCS. IFC has now added indicators such as the share of commitments in FCS to its Corporate Scorecard (targeting investment volumes in IDA17 plus FCS and IDA17-FCS and low-income IDA17 countries as a share of own-account long-term commitments), and, more recently, introduced corporate awards for teams and individual staff working on FCS. However, business volume remains a key performance metric. Earlier IEG evaluations found that this created a disincentive for departments to support investments and advisory services operations in FCS, as these tended to be smaller in size and involved more complex appraisal and design due to opaque market and sponsor information and the presence of weaker sponsors. IFC had also linked staff performance awards to developmental results and financial results for investment projects. However, because projects in FCS on average were riskier and more uncertain in terms of their developmental and financial performance, this created a disincentive for staff to take on projects in FCS. In sum, doing business in FCS does not help staff's volume and productivity indicators. Developing performance metrics adjusted to risks and conditions in FCS could help encourage a more risk-tolerant institutional culture.

IFC has deployed relatively few investment officers to FCS. Past evaluations indicate a lack of investment staff working in or on FCS. While the Conflict-Affected States in Africa initiative enabled IFC to deploy in-country staff, these focused on advisory services. IFC also offered limited specialized training and knowledge management products to support learning from experience and improve portfolio performance.

A challenge for IFC is to set project performance targets that reflect the business environment realities in FCS. In several evaluated projects, development outcome was rated as unsuccessful in large part because the project had failed to meet financial return targets that were identified in the Board approval document, thereby affecting the project's business success ratings. As such, a challenge for IFC is to find the right balance between setting performance indicators that justify the investment from commercial viability point of view versus the challenging business environment that projects in FCS are likely to face.

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A longer time horizon may be needed to enable projects in some industries in FCS to fully realize their financial return potential. In some projects, evaluations suggested that a time frame longer than the 5-year standard might be needed for the project to reach financial return targets, with potential implications for the timing and/or frequency of project monitoring and evaluations. This was the case, for example, for greenfield hotel projects where the relatively long 'ramp-up' period that was generally needed in the industry was exacerbated in FCS environments. In such cases, an assessment of financial returns 8–10 years after start of operations might better capture the long-term financial viability of such investments. Similarly, an IFC equity investment in a Liberian gold exploration project in 2012 was rated unsuccessful at evaluation as limited exploration progress had been made due to the 2014–16 Ebola crisis and IFC had exited at a loss. However, in this case, the sponsor had kept the project viable by managing costs and raising additional funding. A timeline for the project to potentially yield investment and development results was therefore closer to 15–20 years instead of the 10 years that IFC had allowed for. In cases where a project goes into "limbo" in a difficult environment while its fundamentals remain intact, a longer-term, patient approach to assess their development impact might therefore be warranted.

Project Implementation and Supervision

Engaging the local community and sponsors with local knowledge have helped mitigate security risks. In Nigeria, for example, an IFC-supported chemical plant (2007) suffered a major disruption to its operations when eight employees were kidnapped. Following the resolution of this incident, the company established profit-sharing partnerships with its employees and local communities that ensured that the entire community and region were vested in the success of the company. The results were tangible, and, after the initial kidnapping, the company did not experience any further acts of sabotage or terrorism (as of the time of evaluation). In the investment in a cement plant in the Republic of Yemen that was in a conflict-affected part of the country, security of the plant was enhanced by the sponsor's local knowledge of the area. One of the owners had ancestral links to the local area and was thereby able to help ensure safety and security and enable unimpeded operation of the plant. In Liberia, a rubber plantation company established a Plantation Protection Force from the local community that helped secure the plantation.

Remote supervision has been feasible with a strong sponsor. In a chemical plant investment in Nigeria, for example, safety concerns prevented IFC staff from visiting the project site until five years after the initial loan disbursement. Apart from occasional visits from country office staff in 2011, no active supervision had occurred between 2007 (the appraisal date) and the project evaluation in 2012. IFC therefore tracked the operational and E&S performance of the project through regular financial and

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operational monitoring reports from the company, which were timely and comprehensive throughout the project. The project's development outcome was rated as 'highly successful,' suggesting that in some circumstances, remote supervision by IFC in difficult country circumstances may be feasible. In this case, IFC had a prior relationship with the sponsor, who had a strong track record, including in meeting E&S standards.

Built-in flexibility and collaboration can help reduce supervision costs. Some projects require intensive supervision efforts and built-in flexibility can help reduce supervision costs when projects perform well. In a West Bank and Gaza investment in 2009, for example, there were substantial delays in starting operations due to security issues and authorizations required in Israeli-controlled areas. As a result, IFC had to process multiple waivers and a loan amendment to enable the company to continue operations that involved substantial supervision costs. A lesson for IFC was to develop streamlined revision procedures for financial covenants in loan agreements that can apply under certain circumstances. There is also potential for Bank Group collaboration to reduce supervision costs of IFC investments in severe conflict-affected countries given the World Bank's greater presence in the field. In Afghanistan, for example, IFC benefited from close coordination with World Bank staff in the country to actively monitor its investment. A recent IEG review of Bank Group 'Joint Projects'²⁴ found that clear roles, division of labor, and responsibilities throughout project life enabled teams to accomplish tasks, reduce transaction costs, and increase effectiveness in projects with more than one Bank Group instrument and that adaptability and flexibility during implementation figured as key factors in joint projects in FCS.

IFC's Role and Additionality

In some investments in FCS, IFC showed high additionality while in others this was more questionable. IFC's additionality was high in cases where IFC worked with a smaller domestic sponsor in a high-risk sector in an FCS that would not have been able to attract term financing from commercial lenders; or where IFC accompanied an existing international partner investing in an FCS for the first time, with IFC providing a political risk mitigation and hand-holding role in an uncertain environment. Although such projects reflect high risk, they represent valid risks for IFC to take as the projects would otherwise not have attracted term finance in FCS contexts. However, in some investments, the sponsor was a well-established multinational player in the industry, had an ongoing operation in the FCS, and IFC received an unconditional corporate guarantee. In such cases, there was a likelihood that the sponsor would have been able to attract term finance from commercial sources at reasonable terms.

IFC's implied political risk insurance and implementation support helped enable several of the investments in FCS, particularly for greenfield projects in uncertain regulatory

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environments. In general, the natural resource and infrastructure projects involved high political risks due to their size, high profile, and uncertain regulatory environments. They also embodied high E&S risks. IFC's participation helped mitigate these risks and ensure adequate financing for the larger projects. For example, in Georgia, IFC in 2011 provided informal political risk mitigation in the context of the first cross-border energy project, the recent Russo-Georgian conflict, and political uncertainty in the country. In the case of the first Iraqi container terminal investment in 2010, there was no real alternative to IFC's financing at the time, with lenders unwilling to take Iraqi market risk. At the time of the mobile telecom investment in Lao PDR, in 2005, the sponsor was the only operator in the country that did not have majority government shareholding and the country did not have an independent sector regulator. A mobile telecom project in the West Bank and Gaza supported in 2009 helped break a monopoly in the sector. In the Republic of Yemen, IFC helped two international lenders enter a country in 2003 that was perceived as high-risk by international lenders where it was difficult to raise term funding for a capital-intensive industry.

World Bank Group Collaboration

FCS projects require, and offer more opportunities for, synergies among the Bank Group institutions. Bank Group analytical work emphasizes that overcoming the fragility trap "requires strengthening national institutions and improving governance in ways that prioritize citizen security, justice and jobs" (World Bank 2011). Collaboration among Bank Group institutions facilitated private sector investment in high-risk countries. Prior to IFC's investment in the mobile telecom sector in Afghanistan in 2009, for example, the government had made significant progress in strengthening the telecommunications regulatory framework with the assistance of the World Bank, including improving practices in oversight, taxation, interconnection and treatment of foreign investors. In Cameroon, parallel World Bank and IFC efforts in 2010 were important to the progress that the government made on strategic reform and privatization of the country's electricity network. IFC's investment in the telecom sector in Lao PDR helped facilitate a broader regulatory reform program including establishment of a telecom regulatory agency supported by the World Bank. On the other hand, in Sierra Leone, a World Bank program aimed at liberalizing the telecom sector was not implemented as planned. During the implementation of the IFC-supported mobile telecom project, beginning in 2007, the government re-established a monopoly for the international gateway, adversely affecting efficiency and service quality in the industry. More broadly, several IEG evaluations have emphasized the need for a Bank Group-wide approach to address constraints to private sector engagement and help catalyze private solutions to development challenges in FCS.²⁵

5. Implications for IFC's Work in FCS and for Future Evaluation

Implementing IFC's Strategy

Promoting private sector development and private investment in high-risk FCS remains a major challenge. IEG evaluations emphasize the challenges related to leveraging the private sector for sustainable development in FCS countries, including investing in difficult operating environments markets with specific fragility risks, different characteristics of the private sectors and potential project sponsors, distinct features of investment opportunities, and higher cost of doing business. In addition, different types of FCS—such as resource-rich countries, small island states, or landlocked countries—have distinct characteristics and opportunities and challenges for attracting private sector activity and generating broad-based growth. A key knowledge gap remains about approaches and instruments that are effective in engaging the private sector in FCS contexts.

Notwithstanding these challenges, IFC's investments in FCS show a range of positive development contributions. Despite the difficult environments in FCS, IFC development and investment outcomes are on par with outcomes in non-FCS countries, indicating it is feasible to implement successful projects in FCS from development and financial outcome perspectives. These results reflect the application of current parameters of IFC's business model and limited adaptation of its suite of instruments and risk tolerances to work in FCS.

While IFC has introduced some new initiatives and instruments for FCS, it has not been able to scale up business in FCS countries in line with its strategic priorities. For example, IEG's analysis suggests that while IFC is managing FCS risks prudently, its approach may be too risk averse to be able to scale up operations. Although some IFC initiatives are recent and have yet to be evaluated, IFC's record to date may require it to enhance its 'fit for purpose' in FCS through continuous experimentation, adaptation of its model and approaches, and learning by doing.

Past IEG evaluations have identified the following three areas of attention that have the potential to strengthen IFC's engagement and support the scale up in FCS countries:

- Business Development
 - Develop strategies for investments and business development based on some of the distinct characteristics of different types of FCS markets (such as small island states, landlocked countries, resource-rich countries).
 - Strengthen outreach and business development by proactively building a pipeline of clients and opportunities using different pathways such as existing clients, local private sectors, nontraditional foreign and local sponsors, increased deployment of upstream engagement).
 - Deepen existing and develop new relationships with partners in private sector development in FCS.
- Incentives and skills
 - Better incentivize staff working on FCS to align incentives with achievement of IFC strategic priorities in FCS, including through risk-adjusted performance metrics.
 - Review staffing levels and skills mix in FCS to ensure they are aligned to support scaling up activities.
- Risk appetite and instruments
 - Adapt IFC's business model in FCS, which may include the following:
 - Revisit IFC's tolerance for risk commensurate with IFC's objectives and business environment realities in FCS;
 - Develop and pilot new instruments for investment and advisory support;
 - Explore sustainable funding sources and mechanisms to address the high cost of doing business in FCS, higher risk profiles of FCS countries, and the need for systematic capacity building and implementation support to some FCS clients.

Evaluation and Knowledge Gaps for Future IEG Work

While the scope of this synthesis note is limited to reviewing available evaluative evidence, it also identifies areas of knowledge and evaluation gaps. Some of these gaps could be addressed through a future thematic evaluation to inform the implementation

of Bank Group and IFC strategies and related corporate commitments to scale up support in FCS. The synthesis identifies the following gaps and areas of future work:

Knowledge gaps related to effective approaches, instruments and business models for engaging the private sector in FCS:

- **Comparator benchmarking:** IFC's current approach is determined by its business model and processes, with little adaptation to the needs of FCS contexts. It will be useful to learn from approaches, business models, and instruments supporting the private sector implemented among development finance institutions and public and private comparator organizations. Which approaches, and business models are effective and under which circumstances? What options are available for IFC to scale up its support?
- **Experience with the PSW and the use of subsidies.** Have these instruments been effective and contributed to increased IFC engagement in FCS? What has been the effect on IFC's risk appetite?
- **Assessment of internal IFC processes and policies** from upstream work, project development, appraisal, structuring, approvals. What are the key strengths, constraints, and areas that need to be addressed for IFC to significantly expand its investment in FCS?
- **IFC's cost effectiveness in FCS.** IFC's operating cost in FCS is high, and further analysis can help develop a more granular understanding of cost drivers along IFC's project cycle.

Gaps related to evaluation coverage and methodology:

- **Areas of assistance not covered in-depth in this synthesis note.** This includes IFC's support to financial markets, advisory services to governments (for example, Bank/IFC investment climate work), support to non-FCS Low-Income Countries, and a differentiated analysis of instruments deployed in FCS (for example, small and medium enterprise venture funds, blended finance products).
- **Case studies** illustrating IFC and private sector approaches to IFC. Case studies would also systematically reflect the views of IFC clients, governments, partners and comparators, and the private sector in FCS regarding what works. They would also generate lessons on the implementation of the one World Bank Group approach and Maximizing Finance for Development in case study

countries. The selection of cases could include countries that have graduated from the FCS list to identify lessons for IFC.

- Project case studies that enable a longer-term assessment (after 10–15 years from approval) of a project's development effects and sustainability in FCS.

¹ In this report the term fragile and conflict-affected situations (FCS) refers specifically to countries on the Bank Group's Harmonized List of Fragile Situations and is used interchangeably with other terms such as or Fragile and Conflict Situations.

² World Bank. 2011. *Operationalizing the 2011 World Development Report: Conflict, Security and Development*. Washington, DC: World Bank.

³ See Stewart, Francis and Graham Brow. 2010. *Fragile States*. Centre for Research on Inequality, Human Security and Ethnicity, The U.K. Department for International Development; World Bank. 2011. *World Development Report: Conflict, Security and Development*. World Bank

⁴ Commission on State Fragility, Growth, and Development, 2018. *Escaping the Fragility Trap*. LSE-Oxford Commission

⁵ See McKechnie, Alastair, Andrew Lightner and Dirk Willem te Veld. 2018. *Economic Development in Fragile Contexts: Learning from Success and Failure*; Paul Collier. 2019. *Fixing Fragility: The Role of the Private Sector and Local Institutions*; International Finance Corporation. 2019. *Generating Private Investment in Fragile and Conflict-Affected Areas*.

⁶ Recent analysis by the World Economic Forum and IFC supports the findings regarding constraints to doing business in FCS, See IFC (2019): *Generating Private Investment in Fragile and Conflict-Affected Areas*.

⁷ The criteria to identify fragility, conflict and violence in the Bank Group are still evolving. "Fragile and Conflict-Affected Situations" (FCS) means that a country is listed in the Harmonized List of Fragile Situations. "Fragility, Conflict and Violence" (FCV) refers to the challenge of fragility, conflict and violence, regardless of FCS classification of a country or territory. This note refers to the FCS classification of countries, unless specified otherwise. In FY19, 36 countries and territories are included in the World Bank/AfDB/ADB Harmonized List of Fragile Situations, of which 33 are IDA-eligible. <http://pubdocs.worldbank.org/en/892921532529834051/FCSList-FY19-Final.pdf>.

⁸ This Note covers IFC's committed and evaluated portfolio from FY03 -18, taking the introduction of the low-income countries under stress country classification, a precursor of the FCS list, in 2003 to delineate the evaluation period.

⁹ See International Finance Corporation. (2016). IFC Strategy 3.0. 9 December 2016.

¹¹ Data based on FCS country classification at year of project commitment.

¹² Short-term trade finance facilities comprise Global Trade Supplier Finance and Global Trade Finance Program.

¹³ 'Traditional' mobilization includes the following products: *B Loans, A Loans Participation, Structured Finance Non-IFC, Agented Parallel Loans, Non-Agented Parallel Loans, MCPP Loans, MCPP Loans, Debt Security Mobilization, and Other Mobilization by Decision*.

¹⁴ These numbers exclude regional advisory services projects, some of which cover FCS countries.

¹⁵ Including all evaluated projects based on the country being classified as FCS (or low-income countries under stress) at the time of project commitment.

¹⁶ IEG synthesized results from 31 project evaluations in tourism, manufacturing, agribusiness, telecommunications, infrastructure, and natural resources.

¹⁷ The difference is statistically significant at the 10 percent confidence interval.

¹⁸ IEG: Results and Performance of the World Bank Group 2013.

¹⁹ Data based on IFC project expense data for FY15–19.

²⁰ *What It Would Take to Scale-Up IFC Activities in Fragile and Conflict Situations and Low-Income IDA Countries*, April 2016. This analysis is based on data for FY11–15.

²¹ See IEG's 2014 evaluation on *World Bank Group Assistance to Low-Income Fragile and Conflict-Affected States* and (2019 evaluation on *World Bank Group Support in Situations Involving Conflict-Induced Displacement*.

²² IEG (2014a). FCS Evaluation

²³ IEG. 2018. The International Finance Corporation's Approach to Engaging Clients for Increased Development Impact.

²⁴ IEG. 2019. Experience with Bank Group Joint Implementation Plans. The aim of joint implementation plans is, "in countries where two or more Bank Group institutions are engaged and pursuing complementary goals in the same sector, teams may prepare a joint implementation plan. This management tool will help coordinate activities of the different institutions to ensure that they are directed, sequenced, and resourced to have the maximum sustainable impact in pursuit of the twin goals."

²⁵ Such as in *World Bank Group Support in Situations Involving Conflict-Induced Displacement*.

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Appendix A. Outcome Ratings of IFC Investments

Table A.1. Outcome Ratings of IFC Investments in FCS

By Number	Number	Share of All IFC	Development Outcome	Project Business Success	Economic Sustainability	Environmental & Social Effects	Private Sector Development	Work Quality	Screening, appraisal	Supervision and Administration	Role & Contribution	Investment Outcome
FCS Vs Non FCS												
FCS	56	6%	54%	48%	54%	60%	70%	66%	59%	80%	70%	64%
Non-FCS	824	94%	58%	50%	57%	67%	69%	67%	59%	81%	68%	68%
All IFC	880		58%	50%	57%	67%	69%	67%	59%	81%	68%	67%
By Region												
Sub-Saharan Africa	24	43%	50%	46%	54%	50%	64%	58%	46%	79%	67%	46%
Europe and Central Asia	6	11%	33%	17%	33%	67%	67%	67%	67%	83%	83%	100%
Latin America and the Caribbean	2	4%	50%	50%	50%	100%	100%	50%	0%	100%	50%	100%
Middle East and North Africa	7	13%	57%	57%	57%	43%	71%	71%	71%	86%	57%	71%
South Asia	4	7%	75%	75%	75%	75%	100%	75%	100%	75%	75%	50%
East Asia and the Pacific	13	23%	62%	54%	54%	75%	69%	77%	69%	77%	77%	77%
Grand Total	56	100%	54%	48%	54%	60%	70%	66%	59%	80%	70%	64%
By Investment Type												
Equity	16	29%	56%	44%	56%	64%	79%	63%	50%	88%	69%	31%
Loan	35	63%	54%	51%	57%	64%	69%	74%	63%	80%	77%	83%
Mix	5	9%	40%	40%	20%	20%	60%	20%	60%	60%	20%	40%
Grand Total	56	100%	54%	48%	54%	60%	70%	66%	59%	80%	70%	64%
By Sector FM/Non-FM												
FM	27	48%	56%	48%	59%	75%	70%	67%	59%	85%	74%	56%
Non-FM	29	52%	52%	48%	48%	46%	70%	66%	59%	76%	66%	72%
Grand Total	56	100%	54%	48%	54%	60%	70%	66%	59%	80%	70%	64%
Land-Locked State												
Land-Locked	13	23%	54%	54%	54%	54%	77%	62%	62%	77%	69%	77%
Non-Landlocked	43	77%	53%	47%	53%	62%	68%	67%	58%	81%	70%	60%
Grand Total	56	100%	54%	48%	54%	60%	70%	66%	59%	80%	70%	64%
Mineral Rich State												
Mineral Rich	25	45%	52%	48%	56%	61%	63%	64%	52%	80%	64%	52%
Non-Mineral Rich	31	55%	55%	48%	52%	59%	77%	68%	65%	81%	74%	74%
Grand Total	56	100%	54%	48%	54%	60%	70%	66%	59%	80%	70%	64%
SIDS												
Non-SID	50	89%	54%	48%	54%	57%	71%	66%	62%	80%	70%	64%
SIDS	6	11%	50%	50%	50%	80%	67%	67%	33%	83%	67%	67%
Grand Total	56	100%	54%	48%	54%	60%	70%	66%	59%	80%	70%	64%
Approval FY												
Post-2010	21	38%	57%	48%	43%	71%	68%	52%	52%	71%	62%	62%
Pre-2010	35	63%	51%	49%	60%	52%	71%	74%	63%	86%	74%	66%
Grand Total	56	100%	54%	48%	54%	60%	70%	66%	59%	80%	70%	64%
By Commitment Size												
Below 5 million	24	43%	42%	33%	54%	83%	61%	54%	50%	79%	71%	50%
Above 20 m	18	32%	78%	72%	61%	44%	83%	78%	78%	72%	67%	83%
5-20 million	14	25%	43%	43%	43%	36%	69%	71%	50%	93%	71%	64%
Grand Total	56	100%	54%	48%	54%	60%	70%	66%	59%	80%	70%	64%
By Population Size												
5 million to 20 million	18	32%	44%	44%	50%	56%	61%	67%	44%	83%	72%	83%
Above 20 million	25	45%	68%	60%	64%	61%	79%	64%	64%	76%	64%	52%
Below 5 million	13	23%	38%	31%	38%	62%	67%	69%	69%	85%	77%	62%
Grand Total	56	100%	54%	48%	54%	60%	70%	66%	59%	80%	70%	64%
DB Score Closest to AY												
40-50	38	68%	55%	53%	50%	66%	72%	61%	55%	82%	63%	61%
Above 50	11	20%	45%	36%	55%	55%	64%	73%	73%	73%	82%	73%
Below 40	7	13%	57%	43%	71%	33%	71%	86%	57%	86%	86%	71%
Grand Total	56	100%	54%	48%	54%	60%	70%	66%	59%	80%	70%	64%
2019 DB Rank												
100-150	24	43%	58%	58%	54%	50%	70%	71%	58%	88%	79%	63%
Above 150	29	52%	52%	45%	55%	63%	71%	62%	55%	76%	62%	62%
Below 100	3	5%	33%	0%	33%	100%	67%	67%	100%	67%	67%	100%
Grand Total	56	100%	54%	48%	54%	60%	70%	66%	59%	80%	70%	64%

Source: Independent Evaluation Group ratings and staff calculations.

Appendix B. Harmonized List of Fragile Situations

Table B.1. Harmonized List of Fragile Situations

Country or Territory	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Afghanistan	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Angola	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
Bosnia and Herzegovina	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS
Burundi	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Cambodia	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
Cameroon	NFCS	NFCS	NFCS	NFCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
Central African Republic	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Chad	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Comoros	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Congo, Democratic Republic of	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Congo, Republic of	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	FCS	FCS
Côte D'Ivoire	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Djibouti	NFCS	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS
Equatorial Guinea	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
Eritrea	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Gambia, The	FCS	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS
Georgia	FCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
Guinea	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
Guinea-Bissau	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Haiti	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Iraq	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Kiribati	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS

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Harmonized List of Fragile Situations

Country or Territory	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Kosovo	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Lao People's Democratic Republic	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
Lebanon	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS
Liberia	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Libya	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Madagascar	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	NFCS	NFCS
Malawi	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS
Mali	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	FCS
Marshall Islands	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Mauritania	NFCS	NFCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
Micronesia, Federated States of	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Mozambique	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS
Myanmar	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Nepal	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS
Niger	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
Nigeria	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
Papua New Guinea	FCS	FCS	FCS	FCS	NFCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS
São Tomé and Príncipe	FCS	FCS	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
Sierra Leone	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	NFCS
Solomon Islands	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Somalia	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
South Sudan	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Sudan	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Syrian Arab Republic	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Tajikistan	FCS	FCS	NFCS	NFCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS

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Harmonized List of Fragile Situations

Country or Territory	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Timor-Leste	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	FCS
Togo	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Tonga	NFCS	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
Tuvalu	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Uzbekistan	FCS	FCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
Vanuatu	NFCS	FCS	FCS	FCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS	NFCS
West Bank and Gaza	NFCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Yemen, Republic of	NFCS	NFCS	NFCS	NFCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS
Zimbabwe	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS	FCS

Note: FCS = fragile and conflict-affected situations; NFCS = non-FCS.



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