OVERVIEW OF ORGANISATION RATINGS

ORGANISATION OVERVIEW

The International Finance Corporation (IFC) is part of the World Bank Group. It is the largest global development institution focused on private sector development in low income and other emerging markets.

IFC's purpose is to create opportunity for people to escape poverty and improve their lives by:

- promoting open and competitive markets in developing countries
- supporting companies and other private sector partners where there is a gap
- helping to generate productive jobs and deliver essential services to the underserved.

IFC pursues its goals by mobilising finance of various kinds for private sector investment and by providing advisory services to build the private sector in developing countries.
IFC is a major player in global development finance, generating new investment commitments of around US$12.2 billion in 2010–11 in addition to advisory service operations with an approved value of US$820 million. It usually generates a profit, some of which it contributes to the International Development Association (IDA). Australia’s shareholding in IFC is two per cent of the subscribed share capital, making Australia the twelfth largest shareholder. In 2010–11, Australia provided $4.8 million to IFC as non-core contributions, and signed approximately $17 million of new contracts with IFC.

**Results and Relevance**

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<tr>
<th>1. Delivering results on poverty and sustainable development in line with mandate</th>
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IFC has a strong record on delivering results on poverty and sustainable development in line with its mandate. It reports that its work in the East Asia-Pacific region alone in 2010–11 was expected to support 72,000 jobs, reach 157,000 farmers and facilitate about US$12.3 billion in loans to micro, small and medium enterprises. In Pacific Island countries, IFC has increased its lending levels over recent years and supported important reforms such as the Vanuatu government’s privatisation efforts.

IFC has a very strong capacity to monitor and demonstrate results through its Development Outcomes Tracking System. According to the system, 72 per cent of IFC investment projects were rated as having high development effectiveness in 2010 (same as in 2009), exceeding IFC’s long-run target of 65 per cent. Results are confirmed by an external assessor and validated by an internal results measurement team. A sample of results is also validated by the World Bank Group’s Independent Evaluation Group.

In 2011 the World Bank’s Independent Evaluation Group report supported IFC’s approach to fighting poverty. But the report also urged IFC to strengthen its focus on poverty, calling for more IFC projects to have explicit poverty alleviation or pro-poor objectives. Partly in response, IFC recently introduced an action plan to strengthen its focus on the poor.

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<th>a) Demonstrates development or humanitarian results consistent with mandate</th>
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IFC’s principal corporate goal is achieving greater development impact, and development effectiveness is its main guiding principle.

IFC’s Development Outcomes Tracking System (DOTS) tracks development results against expected results for IFC’s entire portfolio, continuously. According to DOTS, 72 per cent of IFC investment projects were rated as having high development effectiveness in 2010 (same as in 2009), exceeding IFC’s long-run target of 65 per cent.

IFC’s reporting of results is stronger at activity-level than at country-level. Most of the aggregate reporting on IFC’s work relates to inputs such as lending levels. However its annual reports include many examples of aggregate impact reporting by region—for example, IFC considers its investments in East Asia and the Pacific in 2010 supported 72,000 jobs, reached 157,000 farmers, and facilitated about US$12.3 billion in loans to enterprises (2011 annual report).
With the help of DOTS, IFC’s management tracks performance against its five strategic pillars to produce a corporate scorecard. IFC has met the targets set for these pillars, endorsed by its board, since the corporate scorecard was introduced in 2005.

IFC is testing the idea of identifying specific development goals to help measure expected impact of all projects and advisory services. Its Development Impact Department is leading this initiative.

| b) Plays critical role in improving aid effectiveness through results monitoring | VERY STRONG |

IFC monitors and rates the development outcomes of all of its projects. For investment projects, the rating captures the project’s contribution to a country’s development based on its business performance, economic sustainability, environmental and social effects, and private sector development. For advisory services projects, the rating captures the extent to which a project’s major relevant objectives were achieved or are expected to be achieved, efficiently. It synthesises ratings on: strategic relevance, outputs, outcomes, impacts and efficiency.

DOTS is a strong system for monitoring and recording key information on projects and program quality, for alerting IFC management to emerging problems and for encouraging IFC staff to improve project and program design and take timely action to improve delivery.

DOTS measurements are assured by an external assessor, validated by an internal results measurement team, and a sample is validated by the World Bank Group’s Independent Evaluation Group.

IFC has a system (see SmartLessons in 4(c)) to share knowledge and lessons learned across the organisation.

| c) Where relevant, targets the poorest people and in areas where progress against the MDGs is lagging | SATISFACTORY |

The performance of the private sector will remain a critical determinant of MDG progress and achievement in all developing countries. This makes IFC’s work to strengthen the performance of the private sector of vital importance, particularly for MDG 1 (ending extreme poverty and hunger) and MDG 7 (ensuring environmental sustainability).

The extent to which IFC can target the poorest people and areas where MDG progress is lagging depends on its willingness (that is, the willingness of its board) to accept the portfolio and financial risks that this entails. IFC’s board has encouraged it to focus its operations increasingly on regions and countries where MDG progress is lagging (for example, frontier regions). IFC is close to its target of delivering 50 per cent of new investment projects in IDA countries. Its investments continue to be significantly more concentrated in IDA countries than global foreign direct investment (30 per cent of its portfolio compared with 21 per cent of global foreign direct investment). Most of IFC’s advisory services are concentrated on IDA countries.
A recent Independent Evaluation Group report supported IFC’s approach to fighting poverty. But it also urged IFC to strengthen its focus on poverty, calling for more IFC projects to have explicit poverty alleviation or pro-poor objectives. Partly in response, IFC recently introduced an action plan to strengthen its focus on the poor.

In addition to increasing the concentration of IFC investments in IDA countries, IFC transfers net income to IDA (US$600 million in 2010–11) thereby lifting its overall contribution to low income countries.

### 2. Alignment with Australia’s aid priorities and national interests

![Strong](#)

IFC’s efforts to promote private sector development, particularly in Pacific Island countries, support Australia’s broader interests in a prosperous and secure region. IFC has been responsive to Australia’s urgings to increase staffing and lending levels devoted to Pacific Island countries.

IFC’s purpose closely aligns with the Australian aid program’s strategic goal of promoting sustainable economic development. It also supports the strategic goals of saving lives and promoting opportunities for all. Examples include generating innovative approaches to increasing the efficiency of water supply and treatment and to improving water security.

IFC has improved its performance on crosscutting issues, in particular gender equality. It recently published a gender-sensitive policy paper—the Gender Dimensions of Investment Climate Reform—which is being widely used in the development community, including by the United Kingdom’s Department for International Development.

IFC has strong policies and safeguards in place on environmental issues and strengthened environmental safeguards will be introduced in 2012. The Australian Multilateral Assessment gathered limited evidence on how well the safeguards work in practice.

The first of IFC’s strategic pillars includes strengthening its focus on fragile states. Together with its partners, IFC produced *A Rough Guide to Investment Climate Reform in Conflict-Affected Countries*. Overall, IFC’s approach to, and record in, working in fragile states has improved over recent years with its commitment to do more work in low income countries.

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### a) Allocates resources and delivers results in support of, and responsive to, Australia’s development objectives

![Strong](#)

As a global organisation with a clear mandate of strengthening the private sector there are some areas of strong commonality with Australia (for example, the Asia-Pacific region, reducing poverty, infrastructure and social sectors) and some areas of complementarity (Africa, Latin America, Middle East; financial market development).

IFC’s main programs in the Pacific (Pacific Enterprise Partnership, Foreign Investment Advisory Service, Pacific Microfinance Initiative, Pacific Region Infrastructure facility) support Australia’s broader interests in a prosperous and secure region.
The IFC has been responsive to Australia’s urgings to increase staffing and lending levels devoted to the Pacific Island countries. The IFC has also been responsive when Australia has pushed for greater attention to partnership behaviour, including with other arms of the World Bank Group.

b) Effectively targets development concerns and promotes issues consistent with Australian priorities

IFC has made many important on-the-ground contributions to the Australian aid program’s strategic goals of promoting sustainable economic development, saving lives, and promoting opportunities for all. For example, its work with the private sector is generating innovative approaches to increasing the efficiency of water supply and treatment and to improving water security. In Sub-Saharan Africa, IFC is helping governments forge partnerships with the private sector to improve the poor’s access to health services.

Globally, IFC is helping private companies in low income and emerging markets to identify business risks and opportunities associated with climate change. It is providing finance to climate-friendly projects (renewable, sustainable forests and clean technologies) and advising companies on ways to reduce greenhouse gas emissions and to adapt to the impacts of climate change.

In the area of economic governance, IFC’s investment advisory services help governments implement reforms that improve the business environment and help encourage and retain investment.

IFC is not a humanitarian organisation, but it has been able to help countries recover from natural disaster (for example, supporting investment in energy production in Haiti after the earthquake).

c) Focuses on crosscutting issues, particularly gender, environment and people with disabilities

IFC’s Women in Business Program aims to mainstream gender issues into IFC’s work, while helping to better leverage the untapped potential of women, as well as men, in emerging markets. IFC has produced several useful papers on promoting gender equality in the business/private sector (for example, Women, Business and the Law, and Women in Mining: a Guide to Integrating Women into the Workforce).

IFC recently published gender-sensitive guidance: the Gender Dimensions of Investment Climate Reform. This highly regarded policy guidance was developed in partnership with the Canadian International Development Agency and the United Kingdom’s Department for International Development, and is being widely used in the development community in the United Kingdom.

Looking ahead, IFC’s long-term strategy suggests it could take a knowledge leadership role in women’s entrepreneurship, potentially through the Women in Business Program.

IFC has strong policies and safeguards in place on environmental issues and strengthened environmental safeguards will be introduced in 2012. The Australian
Multilateral Assessment gathered limited evidence on how well the safeguards work in practice.

| d) Performs effectively in fragile states | SATISFACTORY |

The first of IFC’s strategic pillars includes strengthening IFC’s focus on fragile states.

IFC is subject to the World Bank Group’s overall approach (policies, guidelines and procedures) to working in fragile states. IFC’s approach is normally to offer advisory services ahead of investments (IFC’s Advisory Services expenditures in fragile situations totalled US$32.9 million in 2009–10, 18 per cent of total expenditure).

In 2009–10, IFC’s investment operations in fragile situations amounted to $585 million (five per cent of new commitments, 11 per cent of total projects). Performance of these types of operations is improving but still lags behind the IFC average.

IFC has at times struggled to attract high quality staff to work in conflict environments, such as Afghanistan, where it took considerable time to recruit staff.

IFC has increased the development impact of its investment operations in fragile states. Its Conflict Affected States in Africa program is active in Burundi, Central African Republic, Congo Liberia and Sierra Leone, and is likely to be extended to other countries. This particular program helps to design and implement integrated strategies targeted to support economic recovery in conflict-affected countries.

Together with partners, IFC has produced A Rough Guide to Investment Climate Reform in Conflict-Affected Countries.

Overall, IFC’s approach to, and record in, working in fragile states has improved over recent years with its commitment to do more work in low income countries. Feedback from the Australian Multilateral Assesment field visit to Solomon Islands was positive about the IFC’s increased focus on investment operations over recent years.

| 3. Contribution to the wider multilateral development system | STRONG |

IFC has made contributions at global and national levels to improving the coordination of development efforts, particularly in strengthening private sector contributions. It has contributed to coordination within the multilateral system through strengthening collaboration with other arms of the World Bank Group over recent years, particularly in the East Asia and Pacific region.

An important example of IFC’s work in developing norms and standards is the Equator Principles—its performance standards for environmental and social risk management. These principles are now used by 72 financial institutions worldwide. Thirty-two Organisation for Economic Co-operation and Development (OECD) export credit agencies use them as a benchmark for example. IFC provides, or mobilises, large-scale finance for investment operations.
It is a knowledge leader and innovator in strengthening the private sector’s contributions to development. For example, IFC has taken an innovative approach to addressing food security by establishing the Agriculture Price Risk Management Facility in 2011.

**a) Plays a critical role at global or national-level in coordinating development or humanitarian efforts**

SATISFACTORY

IFC has made contributions at global and national levels to improving the coordination of development efforts, particularly in strengthening the private sector’s contributions. IFC staff often work closely with World Bank staff, and other important players, in the field. IFC and World Bank collaboration has improved markedly in the East Asia and Pacific region over recent years. There is a commitment to close cooperation at the top level in both organisations.

IFC plays an important role at a global level in the coordination of development efforts. It is the lead coordinator for the G20’s Small and Medium-Sized Enterprises (SME) Initiative, and it is also managing the private sector window of the G20/World Bank Group Global Agriculture and Food Security Program.

**b) Plays a leading role in developing norms and standards or in providing large-scale finance or specialist expertise**

STRONG

IFC’s size and global reach make it a critical player in strengthening the private sector’s contributions to development. It provides, or mobilises, large-scale finance for investment operations.

An important example of developing norms and standards is IFC’s performance standards for environmental and social risk management: the Equator Principles. These are now used by 72 financial institutions worldwide. Thirty-two OECD export credit agencies use them as a benchmark.

IFC is working on improving the harmonisation of results measurement across DFIs working in the private sector. IFC teams up with many such institutions, pooling resources to expand reach and to maximise the impact of investments and advisory services. IFC often takes the lead in mobilising large-scale finance from multiple sources for an investment operation. During the Global Financial Crisis, IFC developed a significant number of crisis response facilities, which mobilised approximately US$18 billion from a wide range of donors, including sovereign wealth funds, commercial banks, etc. It is expected to provide a lead in the analysis and design of investment project opportunities, and in applying and disseminating best practice in all its operations.

**c) Fills a policy or knowledge gap or develops innovative approaches**

STRONG

IFC is a knowledge leader and innovator in strengthening the private sector’s contributions to development. For example, it has taken an innovative approach to address food security with the introduction of the Agriculture Price Risk Management facility in 2011.
IFC supports agricultural commodity roundtables committed to improving production practices (for example, in palm oil).

Through the Global Corporate Governance Forum, IFC promotes understanding of the corporate governance changes needed for companies to attract more capital.

IFC plays a key role in the World Bank Group’s Doing Business project, an important resource for stimulating discourse and action around investment climate reform in developing countries.

DOTS, a leading-edge monitoring tool developed by IFC, has been adopted by several other DFIs. SmartLessons (see 4(c)) was launched by IFC and taken up across the World Bank Group.

**ORGANISATIONAL BEHAVIOUR**

| 4. Strategic management and performance | VERY STRONG |

IFC has a clear mandate, a sound medium-term strategy and effective annual planning processes which translate priorities into resource and program management. Each year it conducts an annual strategy exercise, the results of which it feeds into the annual IFC Road Map (discussed and approved by its executive board). These elements are strongly aligned, interlinked and tracked.

IFC has effective governance. It is a dynamic, well-run organisation seeking to improve its relevance and performance. The executive board provides sound oversight over IFC’s operations and helps encourage moves in its strategic direction, for example towards a greater focus on low income countries.

IFC uses its strong framework on results management (Development Outcomes Tracking System and Corporate Scorecard) to realign or amend underperforming programs. It has put in place internal structures to capture and disseminate knowledge to empower staff to deliver quality services to clients.

IFC’s leadership has successfully overseen strong program-level performance (despite the difficulties of the global financial crisis) and shifts in strategic direction over recent years. Its system of staff incentives encourages excellence and rewards good performance (relating to achievement of its objectives).

| a) Has clear mandate, strategy and plans effectively implemented | VERY STRONG |

IFC has a clear mandate, a sound medium-term strategy and effective annual planning processes which translate priorities into resource and program management. Each year IFC undertakes an annual strategy exercise, the results of which it feeds into the annual IFC Road Map (discussed and approved by its executive board). These elements are strongly aligned, interlinked and tracked.

A Corporate Scorecard (target) approach is used to monitor progress on each of the five strategic priorities. These targets also form part of IFC’s staff performance evaluation to ensure performance is aligned with IFC’s strategic priorities.
b) Governing body is effective in guiding management

STRONG

Corporate governance is vested in the Board of Governors, which delegates most powers to an executive board (same as for IBRD/IDA) supported by several standing committees. The executive board provides sound oversight over IFC’s operations. It has also helped to encourage moves in its strategic direction, for example towards a greater focus on low income countries. The Board has supported management in positioning IFC as a dynamic, well run organisation.

c) Has a sound framework for monitoring and evaluation, and acts promptly to realign or amend programs not delivering results

VERY STRONG

IFC has a very strong framework (DOTS, Corporate Scorecard) for monitoring and evaluating project and program performance, which it uses to realign or amend underperforming programs. IFC has put in place internal structures to capture and disseminate knowledge to empower staff to effectively deliver quality services to clients. An example of this is the SmartLessons program—short papers (now more than 600) by professionals based on first-hand experience which capture practical lessons to help colleagues working on similar projects or facing similar issues.

IFC established a Development Impact Department in 2010 to deliver a unified results-measurement system relating to the broader development impact of IFC’s operations, to strengthen IFC’s additionality (a long-standing issue) and to ensure IFC remains at the forefront of knowledge about strengthening the performance of the private sector. It is too early to assess its performance properly.

d) Leadership is effective and human resources are well managed

VERY STRONG

IFC benefits from strong leadership, which has successfully overseen strong program-level performance, despite the difficulties of the global financial crisis and shifts in strategic direction over recent years.

IFC recognises that its performance is directly linked to the skills, knowledge and motivation of its workforce. Its system of staff incentives encourage excellence and rewards good performance (relating to achievement of the organisation’s objectives) more effectively than in most multilateral organisations.

IFC’s human resources strategy, policies and staff management appears to be working well (given the organisation’s overall performance and on the basis of its improved performance in the Pacific region).
5. Cost and value consciousness

IFC’s executive board and Budget Committee scrutinise its budget annually and this is a central aspect of strategic decision making. Cost control and value for money are put under the microscope, usually focusing on four measures: investment productivity; advisory project expenditures as a proportion of total advisory expenditures; IFC comparative cost ratios; and administrative costs as a proportion of total commitments.

Rates of return and/or cost effectiveness are important considerations in all IFC operations. Financial rate of return estimates are an essential part of any investment operation and are examined at design and approval stages. Financial returns are monitored systematically during implementation.

As a for-profit organisation, IFC has a vested interest in inculcating value for money into its partners’ thinking. IFC clients know that the size of its investment depends critically on their demonstrating value for money and value for money considerations are a key part of agreements with partners.

a) Governing body and management regularly scrutinise costs and assess value for money

b) Rates of return and cost effectiveness are important factors in decision making

Rates of return and/or cost effectiveness are important considerations in all IFC operations.

Financial rate of return estimates are an essential part of any investment operation, so IFC (and the executive board) pay particular attention to these in the design and approval stages. Thereafter, financial returns are monitored systematically.

Cost effectiveness is an important consideration in IFC’s advisory projects, and is reviewed in project preparation, approval and implementation.

Comparisons between estimated and actual financial returns and between expected and actual development results form a major part of ongoing project review, completion reports and ex-post evaluations.
### c) Challenges and supports partners to think about value for money

**STRONG**

As a for-profit organisation, IFC has a vested interest in inculcating value for money into its partners’ thinking. IFC’s clients also know that the size of IFC’s investment depends critically on demonstrating value for money, and value for money considerations are a key part of agreements with partners.

### 6. Partnership behaviour

**SATISFACTORY**

IFC works with a wide range of partners: private sector businesses, international financial institutions, donors, developing country governments and civil society. It seeks out these partners to increase the size and development impact of its operations.

Feedback on IFC’s partnership behaviour in the Pacific is positive.

IFC applies World Bank Group standards and disciplines on alignment. Given the private sector nature of its mandate, working through country systems does not generally apply to IFC in the way it does for most multilateral organisations.

Following past concerns by some stakeholders, IFC is conscious of the need to take social impacts into account, in particular to ensure its investment operations are developed and implemented in consultation with all relevant partners.

IFC’s independent Office of Compliance Advisor/Ombudsman provides a vehicle for complaints from people affected by its projects. Like similar mechanisms in other multilateral organisation, there are mixed views on how effectively this works to safeguard the interests of affected peoples.

### a) Works effectively in partnership with others

**STRONG**

IFC works with a wide range of partners: private sector businesses; international financial institutions; donors; developing country governments; and civil society. It seeks out these partners to increase the size and development impact of its operations.

IFC takes its role in partnerships seriously. It has taken a lead in the International Financial Institution cooperation program, cooperated with many development finance institutions, and developed key principles of partnership to cover its engagement with donors.

IFC’s overall record on managing its relationships with partners is good. Evidence for this can be adduced from the growing number and range of partnership arrangements and from the increasing share of non-IFC resources in investment and advisory operations. Feedback on the IFC’s partnership behaviour in the Pacific is very positive.
b) Places value on alignment with partner countries’ priorities and systems  SATISFACTORY

As a member of the World Bank Group, IFC applies the group’s standards and disciplines on alignment with partner countries’ priorities, such as country assistance strategies. It also adheres to the Paris Declaration on Aid Effectiveness principles and Accra Agenda for Action. Given the private sector nature of the IFC’s mandate, working through country systems is not generally applicable in the way it is for most multilateral organisations.

c) Provides voice for partners and other stakeholders in decision making  SATISFACTORY

Following past concerns by some stakeholders, IFC is conscious of the need to take social impacts into account, in particular to ensure its investment operations are developed and implemented in consultation with all relevant partners.

Evidence for this can be found in the application of the Equator Principles to its investment proposals, and to the 18-month review it undertook (from November 2009) of all of its palm oil operations which led to a new strategic framework for decision making on the selection, design and implementation of palm oil projects.

IFC maintains broad-ranging environmental and social safeguards that govern its investment operations. The effectiveness of IFC’s safeguards policy has been mixed. A 2010 Independent Evaluation Group report found that, although IFC’s Performance Standards approach improved ownership among private sector clients and business partners, verification, disclosure, and community ownership have continued to be lacking.

In addition, IFC’s independent Office of Compliance Advisor/Ombudsman (CAO) provides a vehicle for complaints from people affected by IFC (and Multilateral Investment Guarantee Agency) projects. Like similar mechanisms in other multilateral organisations, there are mixed views on how effectively this works to safeguard the interests of affected peoples.

7. Transparency and accountability  STRONG

IFC is strongly committed to transparency and accountability, and has a good record on financial issues, and more general, risk management.

IFC’s access to information policy provides evidence of its commitment to enhance transparency. The policy’s firm presumption is to disclose information unless there is a compelling reason not to do so.

IFC’s criteria for determining which activities it will support are clear. To allocate resources at the regional and sub-regional levels, IFC develops an annual Road Map which provides an overview of proposed financing activities.

IFC has robust financial management and accountability systems and adheres to World Bank standards and disciplines. It is subject to executive board scrutiny, the World Bank’s
Independent Evaluation Group evaluations, to internal and external audit, and to the World Bank Group’s Integrity Vice-Presidency (responsible for investigating allegations of fraud and corruption).

IFC has very strong incentives within its agreements with partners to promote transparency and accountability. Achieving value for money is a key factor in future funding for partners and IFC exercises tight scrutiny over the implementation of agreements.

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<th>a) Routinely publishes comprehensive operational information, subject to justifiable confidentiality</th>
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IFC’s Access to Information policy provides evidence of its commitment to enhance transparency. The policy covers a wide range of information (such as strategies, budgets, policies, financial information, minutes of board meetings, corporate governance, donor contributions, development outcomes and results). The policy’s firm presumption is to disclose information unless there is a compelling reason not to do so.

Further evidence is IFC’s internet-based disclosure portal, a central location for corporate information, policies and standards, proposed investments and stakeholder feedback (which it encourages).

IFC is currently assessing whether it can join the International Aid Transparency Initiative.

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<th>b) Is transparent in resource allocation, budget management and operational planning</th>
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IFC scores well on transparency in resource allocation, budget management and operational planning given the approach it takes to aligning budgets with priorities, to monitoring progress and to publishing results.

Where relevant, IFC uses standard World Bank Group procedures (for example, for procurement, project preparation). IFC’s criteria for determining which activities it will support are clear. To allocate resources at regional and sub-regional levels, IFC develops an annual roadmap which provides an overview of proposed financing activities.

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<th>c) Adheres to high standards of financial management, audit, risk management and fraud prevention</th>
<th>VERY STRONG</th>
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IFC’s record on financial management is good. It adheres to World Bank Group standards and disciplines. IFC is subject to its executive board scrutiny, Independent Evaluation Group evaluations and Compliance Advisor/Ombudsman inquiry, to internal and external audit, and to the World Bank Group’s Integrity Vice-Presidency (responsible for investigating allegations of fraud and corruption).
d) Promotes transparency and accountability in partners and recipients

VERY STRONG

IFC has very strong incentives within its agreements with partners to promote transparency and accountability. Achieving value for money is a key factor in future funding for partners and IFC exercises tight scrutiny over the implementation of agreements with partners.