

IFC Response to the Consultation Paper on Performance Benchmarks for Australian Aid

Introduction

Development effectiveness is the guiding principle of IFC's work, and greater development impact is IFC's principal corporate goal as it works together with the private sector to achieve its goals. We have been benchmarking the Development Effectiveness of our Investment and Advisory activities since 2005 and remain focused on delivering a unified results-measurement system that drives our performance, sharpens our additionality, and extends our thought leadership.

We welcome the opportunity to contribute our knowledge and experience with regard to implementing performance benchmarks at the program and project levels.

Performance rating

1. IFC recommends that Australian Aid performance benchmarks be developed by aid instrument. IFC uses multidimensional Development Effectiveness rating systems that are objectively defined and adapted to the type of instrument used, such as Investment or Advisory Services. By factoring in the multidimensional nature of program and project performance, we encourage projects that are ambitious in solving development problems and achieving results sustainably and cost effectively.

- Investments are benchmarked by assessing development outcomes in terms of financial performance, economic performance, environmental and social performance, and private sector development performance.
- Advisory Services projects are assessed against their strategic relevance, outputs, development outcomes and value for money.

2. To avoid that immediate development results be achieved at the expense of environmental and social standards, the IFC Performance Standards are used in project screening and monitoring and incorporated in the Development Effectiveness criteria. We recommend that the criteria used in performance benchmarks explicitly feature standards to manage the balance between immediate results and long-term impact.

3. We would advise that the benchmarks of aid instruments focus on intermediate outcomes. At completion, projects will typically have evidence of intermediate- and medium- term results but will not be able to account for the full realization of long term development outcomes. In addition, we recommend that the benchmarks include the expectation of impact with a provision for *ex post* verification. In the case of IFC, we introduced a Post Implementation questionnaire to verify the sustainability of the development results of our Advisory Services interventions two or three years after project completion. This enables us to create a robust feedback loop that informs future programming.

4. Our Development Effectiveness rating allows us to identify successful projects that are worthy of replication and scale up. It also allows us to promote non-monetary incentives in the form of performance awards and other forms of public recognition for the project teams. These incentives encourage our teams to design and deploy projects with higher likelihoods of achieving meaningful results.

5. Finally, two dimensions of performance of our instruments are also considered: their impact on economic growth and jobs. Many of our interventions have tracked achievements on these two areas, and we are now in the process of developing frameworks and methodologies that would allow us to aggregate these impacts at the institution level. To support the World Bank Group in further developing this area, IFC recently launched the "Let's Work" initiative, which brings together the private sector, international finance institutions and development partners to help create more and better jobs.

Budget Consequences: Achieving scale and value for money

6. IFC is determined to demonstrate it provides value for money in delivering development solutions in partnership with the private sector, fully aligning with the Australia's objective of delivering value for money. In practical terms, the design and assessment of our projects include an analysis of their cost effectiveness. To be implemented, projects must show a positive cost benefit ratio and equal or greater performance compared to equivalent past projects. We recommend that programming decisions reflect good value for money, based on past performance and careful projections.

7. The Australia-New Zealand-IFC Pacific Partnership has demonstrated the commitment of the three partners in fostering development results at scale in small island States. However, the effort to design development solutions for small populations is often equal to or greater than that for large populations. Benchmarks should examine outreach goals in the context of the operating environment, such that activities in small States are not measured those in larger States in absolute terms. We recommend that benchmarking and resource allocation consider the operating context, include the target share of the population or of the development gap.

8. To further demonstrate value for money, we continually assess the quality of our outputs and the economical use of the resources devoted to our interventions. We recommend that the performance benchmarks include the economical use of resources, with specific consideration given to the level of effort required.

Risk taking and the portfolio approach

9. To obtain the best return from development investments – particularly those aimed at markets and private sector development, informed risks must be taken. IFC's systems and processes encourage program and project leaders to take informed risks in areas at the frontier of development practice that will bring about transformational impact. If the incentive system only promotes achieving conservative targets, interventions will focus on what is easily achievable at the expense of the transformational change required to solve the most pressing development challenges of our time.

10. To encourage appropriate risk taking, IFC uses a portfolio approach with a target Development Effectiveness score at both the corporate and program levels. This approach recognizes from the onset that a majority of development engagements should be successful - including a fraction that will be highly successful - while some projects will be unsuccessful because risks were taken to deliver an innovation with high potential impact. Regardless of success, all projects must demonstrate that they fostered lesson learning valuable to future interventions.

At IFC, Innovative, successful projects are scaled up or replicated, bringing the best knowledge acquired during the project to new contexts. This approach allows us to incubate new, inventive solutions to address critical development needs. We recommend that a portfolio approach to performance be applied, so as to capture and enhance innovation. Likewise, we recommend that rewards for performance, beyond current investments, be applied to support greenfield activities that expand development reach.

We hope that these recommendations support the Department of Foreign Affairs and Trade (DFAT) in defining the best approach for performance benchmarks, notably in relation to multilateral institutions. We welcome enquiries into the IFC approach and stand ready to support DFAT.