



Donors Committee

For information

MIF/GN-78-18
3 May 2004
Original: Spanish

To: The Donors Committee
From: The Secretary
Subject: Independent Evaluation of the MIF (2002-2003): Final report

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Remarks: This report consolidates the main findings and areas of opportunity identified in the evaluation of MIF activities conducted in 2002 and 2003, pursuant to the work plan approved by the Donors Committee (MIF/GN-78). The evaluation reviewed some 500 projects totaling US\$800 million and covering all the main areas of activity addressed and types of operation carried out by the MIF in its 10 years of operation (1993-2003).

A summary of this report was distributed on 19 March 2004 and presented in the Donors Committee on 17 March 2004.

References: MIF/GN-78(2/02), MIF/GN-78-1(11/02), MIF/GN-78-2(11/02), MIF/GN-78-3(11/02), MIF/GN-78-4(11/02), MIF/GN-78-8(9/03), MIF/GN-78-9(9/03), MIF/GN-78-11(1/04), MIF/GN-78-13(2/04), MIF/GN-78-14(2/04), MIF/GN-78-15(2/04), MIF/GN-78-16 Corr. (3/04)



MIF/GN-78-18

***Independent Evaluation of the
MIF (2002-2003): Final
Report***

Office of Evaluation and Oversight (OVE)

Inter-American Development Bank
Washington D.C.
March 2004

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The following annexes are available on the OVE Intranet web page at: <http://ove/> (All about OVE / Docs. Sent to Board / Independent Evaluation of the MIF). For a hard copy, please contact OVE.

ANNEXES

ANNEX I: **METHODOLOGICAL FRAMEWORK**

ANNEX II: **SUMMARY FINDINGS BY GROUP OF PROJECTS**

ABBREVIATIONS

BDS	Business development services
CLICAC	Comisión de Libre Competencia y Asuntos del Consumidor [Commission on Free Trade and Consumer Affairs of Panama]
EMS	Environmental management systems
Euro-GAP	European Retailer Organization – Good Agricultural Practices
HR	Human resources
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
INDECOPI	Instituto Nacional para la Defensa de la Competencia y la Propiedad Intelectual [National Institute for the Defense of Competition and Protection of Intellectual Property of Peru]
INT	Integration and Regional Programs Department of the Bank
ISO	International Organization for Standardization
LAC	Latin America and the Caribbean
LACIF	Latin American and Caribbean Investment Fund
MIF	Multilateral Investment Fund
MSMEs	Micro, small, and medium-sized enterprises
NGO	Nongovernmental organization
OECD	Organisation for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight of the Bank
PPMR	Project Performance Monitoring Report
PRI	Private Sector Department of the Bank
SDS	Sustainable Development Department of the Bank
TC	Technical cooperation
VCD	Venture capital development

FOREWORD

This report consolidates the main findings and opportunities identified in the evaluation of MIF activities conducted in 2002 and 2003, pursuant to the work plan approved by the Donors Committee (MIF/GN-78). The evaluation reviewed some 500 projects totaling US\$800 million and covering all the main issues addressed and the types of activity carried out by the MIF during its 10 years of operation (1993-2003).

At the end of 2002, OVE delivered its first progress report on the evaluation (MIF/GN-78-1) and its findings on the groups of projects reviewed that year: (i) capital markets (MIF/GN-78-4); (ii) financial reform (MIF/GN-78-4); (iii) microfinance (MIF/GN-78-3); and (iv) alternative dispute resolution (MIF/GN-78-2). The groups evaluated included 136 projects totaling US\$160 million in approvals. In early 2003, OVE presented the preliminary results of its evaluation to the Donors Committee and submitted a summary of the results to the Board of Governors of the Bank for consideration.

In 2003, evaluation of the remaining groups of projects was completed. During the course of that year, OVE submitted its 2003 progress report to the Donors Committee (MIF/GN-78-15), along with the respective reports on each of the groups reviewed. These were: (i) human resources and the labor market (MIF/GN-78-8); (ii) private participation in infrastructure (MIF/GN-78-9); (iii) development of venture capital (MIF/GN-78-11); (iv) promotion of competition and consumer protection (MIF/GN-78-14); (v) environment projects (MIF/GN-78-13); and (vi) business development services, including the promotion of trade and quality standards (MIF/GN-78-13). The project groups evaluated in 2003 consisted of 346 additional projects totaling US\$595 million in MIF contributions.

This report is divided into three chapters. The first chapter presents the main findings, organized according to the evaluation criteria set forth in the methodological framework specially developed by OVE for this review. **The second chapter highlights comparative advantages of the MIF** identified during the evaluation that will be key in undertaking new initiatives and formulating strategic focuses in the coming years. **The third chapter discusses the main areas of opportunity** for the MIF, divided into strategic, operational, and thematic opportunities.

EXECUTIVE SUMMARY

This report consolidates the main findings and opportunities identified in the evaluation of MIF activities conducted in 2002 and 2003. The evaluation reviewed some 500 projects totaling US\$800 million and covering all the main issues addressed and types of activity carried out by the MIF during its 10 years of operation (1993-2003).¹

OVE developed a methodology based on the specific scope of MIF activities. Seven evaluation criteria were reviewed in all the project groups. The first three are typical of any evaluation: relevance, effectiveness, and efficiency. Three of the other criteria are more MIF-specific and directly reflect the MIF's strategic targets: innovation, additionality, and sustainability. The last criterion, project evaluation, was added because a preliminary analysis revealed potential difficulties in this area.

A. Findings

The evaluation ascertained that MIF activities addressed highly relevant issues in Latin America and the Caribbean (LAC), demonstrating that the MIF covered key issues for private sector development in the region. However, when the connection between a project and a given problem was examined, a specific link could not always be established, because most of the projects did not have an adequate assessment or solid analytical foundations that would justify intervention in a particular context, thereby lowering the levels of ex post relevance.

The high relevance was also reflected in the fact that approximately 63% of the projects and 66% of the financing amount was allocated to the smallest countries in the region (Groups C and D), where the MIF contribution was significant with respect to the size of the economies. These resources were primarily earmarked for development of regulatory and institutional frameworks that had been neglected during the major reforms undertaken and for the promotion of financial services for small enterprises that have greater difficulty accessing such services. However, the challenge for future activities lies in project selection, since demand is expected to be higher and there should be a broader array of areas of activity in private sector development.

The MIF projects achieved significant results, even in complex areas in which the resources contributed under the projects were small compared with the scope of the problems or the size of the countries. Half of the projects were highly effective in meeting their objectives. The project groups with the highest levels of effectiveness upon completion or at an advanced stage of execution were: promotion of competition and consumer protection, microfinance, and alternative dispute resolution.

¹ The project groups reviewed represent approximately 90% of the amounts approved and 80% of all projects during the period covered.

In order to improve the effectiveness of its projects, the MIF should redouble its efforts to promote discipline in clearly identifying the main problems involved in each project and the attendant risks. Failing to understand the main problems leads to inappropriate budget estimates. In addition, the MIF should reexamine the incentives that in the past have led to a significant underestimation of risks in project documents and superficial treatment of the key problems to be resolved.

The most successful MIF projects were correlated with concentrated activities in a given area, thereby achieving a critical mass of resources, with a sequencing of activities and a strategy over at least the medium-term horizon. The challenge has been greater in broader areas such as reform, in which the MIF support was spread out over a wide range of activities. Its most significant results have been in those segments in which niches were identified where the MIF activities proved highly complementary to Bank efforts and capacities. There were also problems in effectiveness in very complex areas due to the multiple requirements for an enabling environment (legal, financial, and institutional) and prior investments in technology development and business capacity, as was the case for venture capital.

In terms of efficiency, the evaluation revealed opportunities for improvement in all the project groups evaluated. The most decisive factor in inefficiency in the use of resources was delays in project execution, which increased the proportion of administrative expenses, usually at the expense of other budget items associated with the provision of services. On average, the projects evaluated took five years from registration to completion, two years from registration to the first disbursement, one year from approval to the first disbursement, and four years for execution, or one year longer than the original execution period.

Major opportunities for improvement in resource allocation efficiency were identified, given that similar components and systems were often financed in groups of related projects. With the information available, duplication in spending could not be prevented for the same type of services, which were often provided by the same consultants in different countries. To improve efficiency, procurement could be carried out jointly for more than one project so that economies of scale could be achieved, or components such as information systems, teaching materials, manuals, dissemination, and similar items could be shared.

Innovation was the most noteworthy feature of MIF projects throughout the period, showing a distinct capacity for renewal and creativity. This was achieved by stimulating and financing genuinely new ideas from key partners in the region, or by disseminating innovations through replication of successful ideas outside their country of origin. In fact, over 80% of the projects evaluated introduced new business models or new ways of solving problems that were not previously available in the markets of the countries where the projects were implemented. The MIF helped introduce new institutions, business services, and venture capital for small enterprises in the region and prove them viable.

However, difficulties were observed in the materialization of many innovative concepts, and in the dissemination and replication of the successful models identified in the evaluation. Once the projects reached an advanced stage of execution, only half of them managed to maintain high innovation. Among the project groups that achieved the highest innovation were microfinance, alternative dispute resolution, promotion of competition and consumer protection, financial reform and capital markets, and certain human resources projects.

Sustainability levels varied among the project groups evaluated, but improved in the second half of the MIF's 10-year period of activity. Most of the sustainability problems were associated with a lack of institutional analysis of the executing agencies and project isolation from broader programs, including Bank programs, or from national policies that could have lent continuity to the financing initiated by the MIF.

Executing agency maturity and operating capacity were among the most decisive factors in project success or failure. The MIF assistance proved more effective when the executing agencies were capable of efficient management. The sequencing of projects involved in long-term reform efforts, for example, worked better when the executing agencies had achieved a sufficient level of institutional development to undertake each stage.

MIF additionality was very high in groundbreaking areas such as venture capital, microfinance and remittances, human resources and the labor market, promotion of competition and consumer protection, and alternative dispute resolution. Evidence of the MIF's role and contribution to promoting these new areas in the region can be found in their adaptation to the reality of small enterprises and in the original MIF connection with what are now leading institutions and figures in the region. MIF additionality was more difficult to ascertain in areas involving a large number of parties, and that were less likely to have a clear strategic direction. This was the case for several projects for private participation in infrastructure, financial reform, and capital markets.

The value added by the Bank/MIF in the operations was mainly geared towards the project preparation stage and gradually declined during project execution. The evaluation showed a need for greater technical support during execution, particularly in highly innovative areas. There were also additionality problems in achieving project complementarity with other activities carried out by the MIF itself and the rest of the Bank Group, conspiring against the achievement of good results and a synergistic effect.

With regard to monitoring and evaluation, only one third of the projects were able to meet adequate evaluability standards. Given the experimental nature of the operations, their design should help ensure monitoring and measurement of outputs and outcomes, in order to draw lessons learned from the experience gained. Monitoring did improve once the MIF introduced the Project Performance Monitoring Report (PPMR) system in 2000. However, because the project designs included limited evaluability, the PPMR had limited potential. Furthermore, mid-term and final evaluations, which are vital

to allow adjustments to be made in project execution and lessons learned to be drawn, were not widely used, because in many cases they were not easily accessible for broader learning. Lastly, except in the case of human resources projects, there was little effort to assess project impact, particularly at the end-beneficiary level.

B. Competitive advantages of the MIF

The evaluation provided a deeper knowledge of the main competitive advantages of the MIF with regard to private sector development, taking into account in particular the vision and perception of the end-beneficiaries in the private sector, intermediary institutions, and the public sector. The competitive advantages of the MIF are listed below and should be considered before approaching new initiatives, assessing how compatible the requirements are with the advantages:

1. Exclusive focus on private sector promotion and development
2. Focus on innovation and reasonable tolerance of failure
3. Preferential access to the institutional, technical, and physical capacity of the Bank
4. Sensitivity and responsiveness to market needs
5. Foundation for a broad network of key institutions linked to private sector development
6. Potential expansion and deepening of areas that have been particularly relevant and successful in the past
7. Wide range of instruments for intervention
8. Flexibility and capacity for learning
9. Potential for economies of scale
10. Recognized capacity in certain areas and possible mobilization and leveraging of resources

C. Strategic opportunities

The evaluation identified six strategic opportunities, described below.

Strengthen the MIF's role as a laboratory. The evaluation findings clearly show that the MIF has distinct advantages as a laboratory to test effective new approaches to policy and/or business models for the private sector in the region. This laboratory role may take various forms as either "principal" or "agent," which are not mutually exclusive, but

which require a keen awareness of the perspective in order to maximize the proposed impact.

The opportunity for a role as “principal” arises when an issue is being approached that has not previously been addressed by the Bank, or when the Bank’s activities in the area are still relatively embryonic and there is potential complementarity with the MIF action. Here the MIF should maintain linkage with other institutions, giving its projects a systemic focus so that they do not remain small and isolated. This means exploring beforehand whether there is any concrete, relatively organized interest in supporting expansion at the national or regional level if the project is successful.

The role of “agent,” on the other hand, gives the MIF the opportunity to address broader areas and better leverage its resources with the Bank and other institutions. The challenge for the MIF in this role is to identify a limited number of niches in terms of areas of activity, countries, or regions, and avoid diluting its efforts over a large number of areas and activities. In addition, clear rules should be established that will help the “principal” understand when the agent’s role is relevant, along with special systems for remuneration of project administration and disbursements for such operations.

Strengthen the strategic focus to maintain high levels of relevance and effectiveness.

A clear opportunity can be seen in the need for MIF activities to be better targeted to a smaller number of areas, while maintaining and consolidating activity over a considerable period of time (three to five years). Prior to such a commitment, the MIF needs to invest more in baseline sector studies on areas of potential strategic interest, in which it can be clearly established that MIF action is warranted given its competitive advantages and complementarity with intervention by other parties.

The MIF has improved its strategic focus and selectivity by establishing project clusters. However, the evaluation showed that difficulties have arisen in their implementation. For example, there was no systematic selection process for the areas of activities, and the intervention models were replicated without proper analysis of their relevance in the different countries. Furthermore, operational problems during project execution have adversely affected the level of technical support and economies of scale in cluster projects.

Adjust the instruments for intervention to improve project effectiveness and efficiency.

To simplify, MIF project objectives can be divided into two categories: long-term activities to support reform processes, generally spearheaded by the Bank; and short-term, specific activities, designed, for instance, to enhance market operation and introduce new business models for the provision of services. Since the planning horizons for the two types of activities are very different, project organization and resource allocation should also differ considerably. For example, long-term activities are usually implemented more efficiently if the repetitive activities are organized around core services and shared experts available throughout the project execution period in different countries. Significant economies of scale could thus be achieved, delays in the provision

of key inputs for the reforms would be avoided, and a certain level of quality would be guaranteed to be available for all the countries in the region. The current situation, in which certain countries, especially the smaller ones, are unable to defray such expenses or attract that level of expertise, could thus be avoided. Another opportunity is to create instruments in smaller amounts with limited transaction costs and an expeditious mechanism for approval and execution to take advantage of windows of opportunity associated with given political time frames or market circumstances.

Align incentives with expected project results. There is a major opportunity to include project management incentives for both the Bank and the executing agencies. Mechanisms should be explored for remuneration of project management by the Bank, linked to project performance and the level of service by executing agencies. Decentralized project execution systems in Brazil and Peru have demonstrated their potential to change the disbursement system into a product- or results-based one instead of the usual approach of covering inputs. The possibility of expanding this experience should be explored, at least for certain types projects or project components, to stimulate greater effectiveness and efficiency in the use of resources. A similar arrangement could be established for remuneration of key MIF-financed consultants to allow financial incentives (bonuses) if major project goals are achieved.

Promote competition for access to MIF resources. Competitive systems for project selection could help promote higher levels of innovation. Future projects would be enhanced by a more open, competitive process to identify the most appropriate types of activities and projects to be financed. Beyond improving the transparency of the selection process, competition would also promote the use of more standardized parameters for institutional and market analysis, which the evaluation identified as two major weaknesses.

Develop and consolidate institutional networks as platforms for action. Since the MIF has generated a broad base of institutions and individuals that have been key agents in private sector development in the region, it has an interesting network on which it could mount platforms for action. These could be used to carry out projects whose objective would be specifically to implement systems to disseminate successful models, along with learning, and to develop new initiatives to promote the private sector in the region. If the huge flow of experiences, knowledge, lessons learned, and institutional models found during this evaluation is associated with such a network, it could be concluded that the MIF has accrued a wealth of intangible assets that should be considered one of its main competitive advantages for its activities in the coming years. Smart management of these intangibles should be part of the MIF's core work to launch new areas of activities related to the emerging priorities in the region in this new decade.

D. Operational opportunities

The evaluation identified 11 operational opportunities, as described below.

Improve project request processing and identification. MIF projects are generated in different parts of the Bank, some directly at Headquarters, some in the Regional Operations Departments, others in the central departments (such as INT or SDS), and still others in the Country Offices. No standardized procedure could be found in any of the respective manuals. This situation has led to problems of ownership and support for execution, especially for complicated projects. Accordingly, the level of participation that the different parts of the Bank can or should have in identifying projects to be financed should be clearly established, in order to ensure greater transparency in the process.

To this end, the MIF should develop systems that will provide clear guidance as to how a request is submitted, what basic format and elements are required, and who will approve or reject it. These systems could be supported by more information and guidance on the MIF and Bank portal, which could provide orientation on the questions that arise about prospective new projects concerning requirements, processing times, and contacts for information. Such steps would lend transparency and increase the quality of service to requesters of resources for projects.

Develop a new role for regional programs. Regional programs may lead to improvements in efficiency and economies of scale to support a group of projects in a given area, particularly in the framework of initiatives to consolidate networks, thereby contributing to more efficient use of resources and more rapid dissemination of innovations. The project-based, operational focus of the MIF has meant that it has had to pay again and again for the same type of information systems, training curricula, technical materials, virtual libraries, and even regional or comparative studies in different countries.

Improve prior analysis of partners. The MIF should determine the desired profile of its executing agencies and the combination of executing agencies that would generate the highest value added for its strategic objectives. This would require establishing specific criteria for the selection of executing agencies and standardized guidelines that would be part of the institutional and financial analysis for requests. Basic information could then be compiled in a standardized format and the prior analysis would be strengthened, thereby preventing the MIF from undertaking projects that would later fail due to insufficient executing agency capacity.

Develop parameters and strengthen technical monitoring for projects. The MIF could consider redefining its projects in terms of outputs according to standard parameters for quality, cost, and delivery times, following the usual practice in the private sector. To do so, it could explore realigning the way internal incentives reward project generation and supervision. An important issue to be addressed in monitoring, as suggested in the executing agency surveys, is specialized technical support during execution. Given the broad range of project areas and specialties, it is difficult for the Bank's Country Offices to have all the necessary specialized expertise at hand. Accordingly, it would be helpful to arrange technical support for program execution in certain areas. Some support has been provided under the clusters, but the issue of Country

Office responsibilities and authority still needs to be addressed, as does the need for local support in many cases.

Develop a portal to support project execution. With regard to administrative processing and procedures, it is recommended that the MIF develop a portal of services for executing agencies, where they could submit queries online, see answers to frequently asked questions, submit complaints, find standard disbursement request forms, terms of reference, and procedures for the hiring of consultants and procurement, information on service providers, and so forth. The idea would be to simplify project implementation and improve the quality of service to executing agencies by compiling major feedback on any problems in execution that could be arising.

Adjust procurement procedures. Although other procurement procedures that are more appropriate for the private sector have been allowed, there was no evidence that they were used in the projects reviewed.

Monitor the local counterpart contribution. Clear rules need to be drawn up on eligible expenditures and supporting documentation and made accessible (for example by posting them on the proposed portal). The evaluation found that counterpart funding is a systemic problem. The challenge is how to ensure compliance in a standard, easily verifiable, and transparent way in all the countries.

Improve risk identification and management. A change should be stimulated in the project preparation and design culture for the project team to specify project risks. To this end the signals sent by the Donors Committee to Management could prove vital. Project design should include trigger mechanisms that would allow the MIF to “cut its losses” during execution before risks can jeopardize project results. In terms of their timing, trigger mechanisms should be phased in according to technical requirements in the form of easily verifiable indicators in order to avoid having to continue projects when certain originally expected circumstances do not materialize. This approach would help the Bank/MIF manage the problem loan portfolio with clear rules established beforehand.

Stipulate intellectual property rights to systems and innovations. With a view to increasing efficiency and avoiding duplication, the intellectual property rights of the MIF to the products and services it finances (information systems, course curricula, etc.) should be reviewed. The issue should be addressed beginning at the project negotiation stage, then in the agreements, and lastly through mechanisms to secure the outputs of consulting services and information systems so that the MIF has access to them for subsequent dissemination and quality control.

Enhance access to and improve the quality of specialized consulting services. Because the MIF’s areas of activity are so specialized and innovative, it is often difficult for executing agencies in a country to find specialized consultants and also get information on their performance from other experts. Subject to the opinion of the Legal Department, this problem could be remedied by making information available to the

Bank/MIF (for example through the Intranet) on consultants that have already been hired, what projects they worked on, and even the consultant's reports. This approach would help disseminate information and knowledge, at least among Bank/MIF professionals.

Improve monitoring and evaluation systems. It is crucial to generate a set of indicators for activities and results so that performance can be measured throughout the project execution period and upon project completion for each project group. A centralized system coordinated among the various parties involved in project evaluation is also necessary, as is participation by all stakeholders. Coordination of evaluation activities will lead to economies of scale and a thematic focus. Lastly, MIF activities should include selective measurements of the impact of the services provided on the end-beneficiaries, which will also help improve practices and performance in the design and implementation of new services. A key condition for learning is for the evaluations to be made available both inside the Bank to the project teams and executing agencies and outside the Bank. These instruments should be used to strengthen and provide feedback on the monitoring system used by the Bank through PPMRs.

E. Thematic opportunities

Lastly, the evaluation found potential opportunities in the areas of activity evaluated, based on an analysis of the gap between needs of the market in which the MIF had a competitive advantage and the areas of activity selected in the project groups evaluated. These opportunities are viewed simply as a way to help identify future areas of activity. In any event, their analysis would need to be updated and deepened before MIF resources could be committed.

I. MAIN FINDINGS

1.1 The first challenge for the evaluation was to develop a methodological framework that would address the special features of MIF activities. First the specific scope of its activities and market needs were identified, giving rise to seven evaluation criteria that were applied to evaluation of the projects. The first three criteria are typical of any evaluation: relevance, effectiveness, and efficiency. Three others are specific to the MIF and directly reflect its strategic goals: innovation, additionality, and sustainability. The last evaluation criterion was added because a preliminary analysis revealed potential difficulties in project evaluation. The methodological framework for the evaluation is detailed in Annex I to this report. The main findings are discussed below, by evaluation criterion. Annex II is a summary of the results broken down by group of projects.

A. Relevance

1.2 **The evaluation ascertained that MIF activities addressed highly relevant issues in Latin America and the Caribbean (LAC), demonstrating that the MIF covered key issues for private sector development in the region.** However, a specific link could not always be established between a project and a given problem, because most of the projects did not have an adequate assessment or solid analytical foundations that would justify intervention in a particular context. Yet the review of project design (ex ante) showed that on average three out of four projects were carried out in areas considered highly relevant in the countries. This degree of relevance has remained relatively constant since 1993.

1.3 **The high relevance was also reflected in the fact that approximately 63% of the projects and 66% of the financing amount was allocated to the smallest countries in the region (Groups C and D),² where the MIF contribution was significant with respect to the size of the economies.** These resources were primarily earmarked for development of regulatory and institutional frameworks in areas that had been neglected during the major reforms undertaken (infrastructure, labor market and human resources, capital and financial markets) and for the promotion of financial services for small enterprises that have greater difficulty accessing such services. However, the challenge for future activities lies in selectivity.

1.4 **Intervention in broader areas or in larger countries showed a need for greater emphasis on identifying niches where MIF activities would be relevant.** Among such niches would be selective participation in “last mile” activities in reform processes either by giving SMEs access to the benefits or by developing platforms bringing together the different stakeholders.

² Regional projects were not included in this calculation.

- 1.5 **Even though the projects were relevant, there was a lack of sector diagnostic studies and/or market studies that would have helped better identify the role the projects would play.** These problems conspired against maintaining high relevance, since once the projects were completed they were less relevant. This finding does not necessarily mean that the MIF should finance complex ex ante sector studies but that it should build up more sector knowledge that would help it clarify the strategic role it should play and the benefits its intervention would contribute. It could supplement this knowledge with market studies that would provide basic information on potential suppliers, competitors, client willingness to pay, perceived value of the services to be provided, and so on. It should be noted that this lack of contextual analysis was found in many of the Bank Group activities for the private sector,³ which tend to involve intervention without having a shared, accessible, timely diagnostic study around which the activities could be organized.
- 1.6 **The project group with the highest relevance was microfinance,** both because of the importance of the microenterprise sector in most of the countries in the region and because of its recognized limited access to credit and financial services. “Customized” projects, especially using financing and direct or indirect equity investments have been particularly relevant because they are carried out at a key stage in the development of many institutions. Moreover, not only do microfinance institutions have low levels of delinquency, but the financial services they provide are also highly appreciated by their clients.⁴

B. Effectiveness

- 1.7 **The MIF projects achieved significant results, even in complex areas in which the resources contributed under the projects were small compared with the scope of the problems or the size of the countries.** Half of the projects were rated highly effective in meeting their objectives. The project groups with the highest levels of effectiveness upon completion or at an advanced stage of execution are detailed below.
- 1.8 **Promotion of competition and consumer protection.** This small, diverse group of activities performed very well in terms of effectiveness. Outstanding results were achieved in particular in the development and/or strengthening of agencies responsible for market competition, for instance in Panama and Peru.⁵ These institutions have now become regional models for the protection of competition. In addition, a program was successfully carried out in Uruguay for competition in

³ “Synthesis of OVE evaluations of Bank action for Private Sector development”, RE-287, OVE, October, 2003.

⁴ Results of impact studies conducted in Bolivia, Colombia, and Uruguay.

⁵ The Commission on Free Competition and Consumer Affairs (CLICAC) in Panama and the National Institute for Competition and Intellectual Property (INDECOPI) in Peru.

government procurement by creating more transparent and user-friendly systems for private-sector participation.

- 1.9 **Microfinance was also among the top performing groups in terms of effectiveness**, with 58% of the projects achieving the proposed objectives. Effectiveness was especially high in projects promoted or supported through the MIF Investment Unit (Facility III-B, equity investment and lending). This was also the group with the most innovative projects, both with respect to the objectives targeted and the instruments used to achieve them.
- 1.10 **Alternative dispute resolution** was another high-performing group: 57% of the projects were highly effective. With a contribution of just US\$14.1 million, the projects financed in this area were instrumental in establishing alternative dispute resolution in the region, with very successful results in at least four countries. Even in a country the size of Brazil, the MIF-funded project was key in developing institutional capacity and human resources. It helped set up a network of 45 Mediation and Arbitration Centers, which have seen strong demand for resolution of labor, commercial, and—more recently—property disputes.
- 1.11 **In more complex areas such as financial reform and capital markets, some 53% of the projects were rated highly effective.** Noteworthy in this group were those projects to improve financial infrastructure, especially in Group C and D countries; develop or strengthen private pension systems; improve operation of stock exchanges in several countries, mainly programs to enhance payment and compensation systems; promote the use of more and better instruments for risk management in the insurance industry; and establish or consolidate exchanges for agricultural products by generating transparent information.
- 1.12 **Among the less successful project groups were private participation in infrastructure and the environment.** One of the biggest problems identified in the projects that did not achieve a high level of performance was the occurrence of risks not identified beforehand that conspired against achievement of the project objectives, along with a lack of precision in the formulation of the proposed objectives.
- 1.13 **In the case of venture capital funds**, although the performance of the first generation of projects was not satisfactory, a series of externalities were found to have helped promote an embryonic venture capital industry. In addition, a learning process took place, with adjustments in fund structuring to target the funds to enterprises with high growth potential (mainly technology-based) and a wider range of instruments for intervention, enhancing the environment for better operation of investments in venture capital funds. For example, investments in Chile and Brazil, beyond developing the funds, have proven a valuable source of information and have prompted major advances in the regulatory framework for the industry. Such interventions are developing a group of qualified administrators, experts in the

field, investors and entrepreneurs, who, together with development banks and government agencies involved in technology and business development, have become strong industry proponents.⁶ A sign of growth in the venture capital industry is the fact that several national associations have recently been established (for example in Brazil, Chile, and Mexico), as well as a regional association (the Latin American Venture Capital Association), which have all been involved in MIF projects.

- 1.14 **Similarly, business service development projects have used a learning curve to improve their effectiveness.** Here as well there were difficulties in achieving objectives, particularly in supply-oriented projects carried out in the first half of the MIF's 10 years of operation (1994-1998). In general, the evaluation showed that these projects had not delimited their area of intervention or clearly targeted their clientele.⁷ However, in 1999, the projects showed a trend towards better targeting to specific needs (such as quality and marketing) and with more active use of instruments to develop markets on the demand side by using vouchers for microenterprises and matching grants for SMEs.
- 1.15 **In order to improve the effectiveness of its projects, the MIF should redouble its efforts to promote discipline in clearly identifying the main problems involved in each project and the attendant risks.** The MIF should reexamine the incentives that in the past have led to superficial treatment of the key problems to be resolved and a significant underestimation of risks in project documents. In some cases, the failure to understand the core problem led to inadequate budget estimates. Among the unidentified risks found in the project evaluation, the biggest proportion was associated with macroeconomic problems or political changes, for which the project design had not foreseen any means of adjustment or exit strategy that would have allowed the program to be reconsidered. Greater attention to risk identification would imply the development of new techniques and incentives and a shift in Bank culture away from the standards applied to public sector projects.
- 1.16 **In summary, the most successful MIF interventions were correlated with concentrated activities in a given area,⁸ thereby achieving a critical mass of resources, with a sequencing of activities and a strategy over at least the medium-term horizon.** The challenge has been greater in broader areas such as private participation in infrastructure, human resources, and the labor market. In these areas, MIF support was spread out over a wide range of activities in various parts of the industry or sector. Its most significant results have been in those

⁶ The "INOVAR" program in Brazil exemplifies the huge potential of joining efforts and creating synergies in a platform to promote the industry.

⁷ For example, they did not have clear definitions of the size of the target enterprises or sector, and failed to take more complex measures such as sector positioning or business dynamics.

⁸ As occurred in the microfinance project group.

segments in which niches were identified where the MIF activities proved highly complementary to Bank efforts and capacities. There were also problems in effectiveness in very complex areas due to the multiple requirements for an enabling environment (legal, financial, and institutional) and prior investments in technology development and business capacity, as was the case for venture capital.

C. Efficiency

- 1.17 **In terms of efficiency, the evaluation revealed opportunities for improvement in all the project groups evaluated.** The most decisive factor in inefficiency in the use of resources was delays in project execution, which increased the proportion of administrative expenses, usually at the expense of other budget items associated with the provision of services. On average, the projects evaluated took five years from registration to completion, two years from registration to the first disbursement, one year from approval to the first disbursement, and four years for execution, or one year longer than the original execution period.
- 1.18 **In addition, the MIF policy to avoid financing second stages has led to the design of very complex projects that are difficult to manage efficiently.** This situation was particularly visible in the projects for financial reform, capital markets, and private participation in infrastructure. On average, the execution period planned from approval and the last disbursement for those projects was a little over two years, but took twice as long. Such delays reveal a need to recognize that properly configuring regulatory and institutional frameworks is a lengthy process that is better supported through gradual methods that may require sustained assistance either from the MIF or other interested parties.
- 1.19 **A consistently striking observation in all the project groups evaluated was that it took two years from project registration to the last disbursement, even in the case of lines of activity,⁹ which had helped reduce approval times by 60%.** This finding seems to indicate that there are structural factors linked to project preparation, approval, signature of the agreement, and fulfillment of the conditions for eligibility for disbursement that cause delays and have resisted various attempts to streamline the process.
- 1.20 **At the individual project level, a frequent threat to efficiency was the low ratio of resources earmarked for general activities or “institutional strengthening” to those allocated to services for end-customers.** This type of efficiency problem stems partially from execution mechanisms that did not include the necessary incentives. The executing agencies for MIF projects generally have little experience

⁹ Lines of activity were introduced in the second five-year period of MIF operations. In this type of financing, the Donors Committee would approve an “umbrella” program under which a series of projects would be approved for relatively small amounts (less than US\$300,000) through simplified procedures. The lines of activity approved were for the following areas: (i) microfinance (2); (ii) concessioning; (iii) airport security; and (iv) infrastructure development in Group C and D countries.

in project implementation and need resources for “institutional strengthening.” However, the prior institutional analysis was inadequate to determine the level of strengthening required. In certain cases, instead of using the installed capacity of the executing agencies, or in the absence of any such capacity, high fees for “institutional strengthening” were charged for coordination teams. In other cases, such as programs for business development services or technical training, the executing agencies were overburdened with multiple roles in addition to providing services as well as acting as intermediaries for the services. This type of problem absorbed a large portion of the resources and execution period at the expense of services directly targeting enterprises and jeopardized sustainability of the services upon project completion.

- 1.21 **Another problem associated with efficiency occurred in the hiring of more specific or highly specialized consulting services, where information was not always generated that would help conduct a general evaluation of service quality or give the executing agencies access to a core group of specialized consultants in innovative areas in the region.** This situation was particularly common in such areas as financial reform, capital markets, and private participation in infrastructure, in which over 50% of the MIF financing was used to pay consulting services without any evaluation of service quality.
- 1.22 **At the overall project level, major opportunities for improvement in resource allocation efficiency were identified, given that similar components and systems were often financed in groups of related projects.** With the information available, duplication in spending could not be prevented for the same type of services, which were often provided by the same consultants in different countries. By developing central registries for specialized consulting services with performance ratings, standardized information systems, or specific procedures for international competitive bidding, MIF-financed products could more easily be used multiple times. Procurement could be carried out jointly so that economies of scale could be achieved, or components such as information systems, teaching materials, manuals, dissemination, and similar items could be shared.
- 1.23 **Not even in the case of regional projects, in which greater efficiency could be expected in the use of aggregate resources, particularly in areas in which there were economies of scale and difficulty gaining access to experts, satisfactory efficiency levels were not achieved.** In fact, these projects also showed problems in management, especially with regard to design issues such as multiple coexecuting agencies and a lack of institutional capacity in the executing agencies. As a result, there were difficulties in coordination, a lack of incentives for adequate performance by the executing agencies, limited accountability on management, and fragmented supervision of project execution.
- 1.24 **The division of labor between project design and execution also leads to problems in efficiency.** MIF projects are generally designed by Bank staff, who are

not entirely familiar with either the MIF's mandate or private sector development. The evaluation found that the projects were often designed without reference to prior experience in the respective area. There was little formal evidence of learning or a system to share mistakes and provide feedback on past experience. With regard to project execution, given the complexity of the projects, their private sector focus, and their innovative nature, there is a need for close supervision during their implementation. However, supervision of the MIF projects was compromised because it is carried out by Country Office staff who are not familiar with private sector work and for whom innovation is not a focus. Given the wide variety of topics and specific nature of MIF projects, they often require specialized expertise that is not always available in the Country Offices.

- 1.25 Lastly, with regard to administrative procedures, the evaluation found that following the same procedures designed for public sector projects in MIF-financed technical cooperation projects raised major challenges in terms of efficiency.

D. Innovation

- 1.26 **Innovation was the most noteworthy feature of MIF projects throughout the period and even increased over time, in several of the areas addressed, showing a distinct capacity for renewal and creativity.** This was achieved by stimulating and financing genuinely new ideas launched by key partners in the region, or by disseminating innovations through replication of successful ideas outside their country of origin. In fact, 83% of the projects evaluated had a high ex ante level of innovation, introducing new business models or new ways of solving problems that were not previously available in the markets of the countries where the projects were implemented. In summary, the MIF helped introduce new institutions, business models, business services, and venture capital for small enterprises in the region and prove them viable.
- 1.27 **However, difficulties were observed in the materialization of many innovative concepts, and in the dissemination and replication of the successful models identified in the evaluation.** Once the projects reached an advanced stage of execution, only half of them managed to maintain high innovation. Among the project groups that achieved the highest innovation levels were environment, microfinance, alternative dispute resolution, promotion of competition and consumer protection, financial reform and capital markets, venture capital development, and certain human resources projects.
- 1.28 **Microfinance projects had the highest ratings for innovation in the evaluation. Ex post reviews showed that innovations were effectively implemented in close to 90% of the projects.** A regulatory and institutional framework and system for

financial services for low-income groups were developed, leading to a model specific to the region that is now a benchmark worldwide.¹⁰

- 1.29 **Innovations in capital markets and financial reform projects during the first five years of MIF activity led to significant changes in markets in the region,** with economies that were barely emerging from a period of financial repression in the early 1990s. It gradually became more difficult to maintain such levels of innovation, since the greatest changes had already been made. Mechanisms thus need to be developed to prompt major changes through relatively small but high-impact contributions.
- 1.30 **Among the human resources and labor market projects, the most innovative programs introduced systems that are more sensitive to private sector demand, thereby building more competitive markets.** Of particular note were the MIF programs to introduce certification of worker skills in the region, which has posted growing rates of adoption in private sector practice. However, many of the initiatives still face obstacles to consolidation.
- 1.31 **The MIF program for venture capital development is probably one of the most innovative, ambitious, and challenging ever undertaken.** Prior to startup of the MIF, the idea of developing a venture capital industry for small growing enterprises was practically unheard of in the region. Nevertheless, international experience shows that the industry requires a long-term horizon for development, and its success can only be measured in decades. Moreover, it requires considerable financial resources, a solid institutional framework, a critical mass of business opportunities, experienced agents, an enabling legal, tax, and regulatory environment, and an active capital market. This set of conditions illustrates how complex a proposition venture capital development is. Nevertheless, despite the magnitude of the challenge, preliminary indications are that the industry is developing in Brazil and major progress has been made in Chile. The MIF has been a key player in those two countries in pioneering and focusing such efforts.¹¹
- 1.32 **At the design stage, environment projects reflected recent market trends and concerns, with a highly innovative content in almost 90% of the projects.** Many sought to introduce new approaches such as ecoefficiency in manufacturing and new products (such as organic produce) and services (such as sustainable tourism), at the national and regional levels. Institutional innovations were also carried out by linking government, business, and academia. However, the challenge observed in the projects at the most advanced stage of execution or already completed was to

¹⁰ This success in innovation then became a challenge, since a downward trend was observed in conjunction with improved sustainability levels attributable to a “maturing” of this type of intervention.

¹¹ It should be noted, however, that transplanting these innovations to other countries in the region would not be simple because strong institutional and financial commitments over the long term would be required to create the conditions for success.

achieve the innovations initially announced, generate sustainable markets, and ensure a demonstration effect based on these pilot projects.

E. Sustainability

- 1.33 **Sustainability levels varied among the project groups evaluated, but improved in the second half of the MIF's 10-year period of activity.**
- 1.34 **Most of the sustainability problems were associated with:** (i) a **lack of institutional analysis** of the executing agencies, especially in countries with a history of poor performance and major deficiencies at the institutional level; (ii) the **transition from MIF funding to new sources of income** or financing for the products and services developed; and (iii) **MIF project isolation from broader programs**, including Bank programs, or from national policies that could have lent continuity to the financing initiated by the MIF.
- 1.35 **Microfinance projects posted the highest ex post sustainability, achieving high levels in three out of every four projects. Sustainability is the issue at the heart of microfinance operations and is also being incorporated into the Bank strategy, in which the MIF has been assigned a vital role.** Partner selection, institutional analysis, and program design paid special attention to sustainability.¹² A large majority of the microfinance projects showed high growth on the part of the institutions supported, in terms of both coverage and assets, based on the development of financial products that have high microenterprise demand and high user satisfaction with the services rendered, as evidenced in a survey conducted as part of this evaluation. The MIF support helped demonstrate the financial viability of microfinance, disseminating appropriate institutional arrangements and financial technology, and promoting a regulatory environment conducive to microfinance growth under standards of supervision that will help build sound institutions.
- 1.36 **The project groups with the greatest difficulties achieving adequate sustainability levels were environment and venture capital funds,** particularly those geared towards investments in environmental businesses.
- 1.37 **Local counterpart funding was an issue in most of the projects, having compromised the sustainability of the services provided in some of them.** The MIF has used partner contributions as a key indicator of project ownership. Evaluation of project design shows an increase in the counterpart contribution requirements, up to a cash contribution of 50%. However, regardless of the importance ascribed to counterpart funding in a donors memorandum at the time of approval, evaluations in the field found that the systems to measure the

¹² In the microfinance "case studies" it was determined that 70% of the projects included an analysis of the institutional capacity of executing agencies as part of project design, 95% analysis of their financial capacity, and 87% prior experience with the Bank or other institutions.

contributions were limited to an annual review for entry in the PPMR, without breaking them down into cash and in-kind contributions. Moreover, the criteria for recognition of the various forms of counterpart funding varied among the Country Offices. Counterpart funding is a systemic problem that raises the challenges of how to ensure compliance in a standardized way that is easily verifiable and transparent in all the countries.

- 1.38 **Executing agency maturity and operating capacity was one of the most decisive factors in project success or failure.** The MIF assistance proved more effective when the executing agencies were capable of efficient management. The sequencing of projects involved in long-term reform efforts, for example, worked better when the executing agencies had achieved a sufficient level of institutional development to undertake each stage.

F. Additionality

- 1.39 **MIF additionality was very high in groundbreaking areas such as venture capital, microfinance and remittances, human resources and the labor market, promotion of competition and consumer protection, and alternative dispute resolution.** Another important observation is that the level of additionality for all the projects evaluated was higher in the second half of the MIF's 10 years of activity. Evidence of the MIF's role and contribution to promoting these new areas in the region can be found in their adaptation to the reality of small enterprises and in the original MIF connection with what are now leading institutions and figures in the region.
- 1.40 **Microfinance projects posted the highest additionality,** because they helped leverage the resources considerably, and the institutions supported used their access to the MIF as a "quality seal" to attract other investors and additional resources. In fact, the network of institutions served comprises a portfolio of US\$633 million and 754,000 microentrepreneurs. The services are channeled through 38 institutions receiving direct contributions and indirect support (through funds) in the amount of US\$19.3 million in reimbursable and nonreimbursable funding. If MIF contributions to microfinance funds are included (the MIF made equity investments in Profund and Lacif), its contributions total US\$33.2 million.
- 1.41 **MIF additionality was more difficult to ascertain in areas involving a large number of parties and that were less likely to have a clear strategic direction.** This was the case for several projects for private participation in infrastructure, financial reform, and capital markets. Nevertheless, the MIF posted a significant level of additionality in the smallest countries (Groups C and D), where its activities mobilized key players more easily, with a more visible role, and where the allocation of MIF resources was actually more important for reforms. In projects for private participation in infrastructure, additionality was higher in certain areas, in particular when the MIF opted to support specific activities not considered under

the major reforms, such as consumer protection and strengthening and adaptation of regulations to the local environment.

- 1.42 **In broad areas such as financial reform and capital market development, in which the overall MIF project additionality was not high, the MIF support proved instrumental when it addressed very specific niches.** This occurred primarily in areas key to developing the framework for the insurance industry, strengthening transparency and mechanisms for payment in securities markets, or in special areas supplementing reforms in social security. The situation was similar for projects to adjust regulations and financial supervision to support the emerging microfinance industry.
- 1.43 **The value added by the Bank/MIF in the operations was mainly geared towards the project preparation stage and gradually declined during project execution,** when the emphasis is placed on administrative procedures and not on technical support for the innovations. The evaluation showed a need for greater technical support during execution, particularly in highly innovative areas. Despite the high degree of commitment ascertained, the support offered by the Bank's Country Offices did not necessarily include in all cases the technical specialization needed to respond to these needs, given the wide range of areas covered by the projects and considering that innovation is not central to their operations. In addition, the MIF structure in Washington generally does not include specialists in all the areas addressed with these projects, making it complicated to ensure technical monitoring of the projects, compile experience, and disseminate lessons learned in the pilot projects supported.
- 1.44 **There were also additionality problems in achieving project complementarity with other activities carried out by the MIF itself and the rest of the Bank Group, conspiring against the achievement of good results and a synergistic effect.** For example, the evaluation of projects for private participation in infrastructure did not find any project that was initiated in any of the infrastructure units of the Private Sector Department or the Inter-American Investment Corporation, indicating ample room for more effective coordination. Furthermore, although the objectives and activities of the projects were similar in different countries, there was very little communication and almost no exchange of experiences between projects. In certain sectors, such as electricity, telecommunications, or water supply, regional organizations of regulatory agencies have begun to be established, providing the MIF with an opportunity to partner with them to promote regional synergies. This type of regional exchange also spontaneously arose in other project groups, such as alternative dispute resolution, indicating that there is also ample room for more effectively promoted and institutionalized coordination.
- 1.45 **However, there are certain cases where considerable complementarity with Bank Group action was achieved and operating synergies occurred as a result**

of clear mechanisms for cooperation between the Bank and the MIF. In microfinance, for example, a crucial element of this successful strategy was the partnership forged with the Bank, which helped the MIF take advantage of the Bank's historic experience in microfinance as well as its infrastructure and presence in the region to disseminate successful experiences.

G. Evaluation

- 1.46 **With regard to monitoring and evaluation, only one third of the projects were able to meet adequate evaluability standards.** Given the experimental nature of the operations, their design should help ensure monitoring and measurement of outputs and outcomes, in order to draw lessons learned from the experience gained. Furthermore, midterm and final evaluations, which are vital to allow adjustments to be made in project execution and lessons learned to be drawn, were not widely used, because in many cases they were not easily accessible for broader learning. Lastly, there was little effort to assess project impact, particularly at the end-beneficiary level. It should be noted, however, that human resources projects did make a major effort in monitoring and evaluation.
- 1.47 **Monitoring improved substantially once the MIF introduced the Project Performance Monitoring Report (PPMR) system in 2000.** Through the PPMR, the MIF can generate an annual report on project execution.¹³ As evidenced in interviews with Bank staff, the simple fact of installing the PPMR forced the MIF to review program objectives and goals, periodically verify progress, and discuss certain key performance issues. The quality of the reports also improved, as did the implementation of oversight systems (i.e. red and yellow flagging) that promote a more proactive approach to resolving problems in ongoing projects. In fact, the adjustments in the PPMR system, which was formally integrated into the Bank's oversight systems in 2003, involved significant changes in the frequency of reporting (semiannual instead of annual), required content, and enhanced use of lessons learned and adjustments in project execution. Nevertheless, because of the limited ex ante evaluability, the PPMR had limited potential and generated higher performance ratings than the OVE evaluation team awarded.
- 1.48 **The MIF also enhanced project evaluation with the portfolio review reports prepared by its Monitoring and Evaluation Unit.** The reports review performance by projects under the various facilities and include recommendations both for the execution of ongoing projects and for the design and preparation of new projects. However, the MIF should strengthen the systems to share the lessons learned actively and systematically during project design and execution. Given the MIF's wealth of institutional know-how based on some 10 years of project

¹³ It was very difficult to review pre-PPMR projects during the evaluation because access to information is problematic and in several Country Offices the files on old completed operations are destroyed after a certain period of time.

- execution, development of such a system is warranted. The PPMR process could be a good starting point from which to launch electronic dissemination of project documents, mid-term evaluations, final evaluations, action plans, terms of reference, and consultant's reports that are key for the projects, rosters of suppliers, and any other information that might be useful for future initiatives.
- 1.49 **Another important factor is the limited access and effectiveness of the evaluations to be covered by program resources.** Significant resources were allocated to midterm and final evaluations of the projects (approximately US\$30,000 per project), but very few of the evaluations conducted are available. In most cases, they were filed in the Country Offices, not having been used effectively to adjust or cancel the programs or for purposes of dissemination and learning based on the experience gained.
- 1.50 **In general the projects do not have impact evaluations or ex post evaluations.** To a great extent, this is due to the scope of the projects, the presumably shorter execution periods, and the practical limitations that prevent a project from having its accounting records open with an amount pending execution for a long period (such as 12-24 months). Nevertheless, mechanisms should be developed so that these resources and evaluations can be used to assess similar projects synergistically. A move in that direction with highly specialized experts would help build solid documentation on project impact and on lessons learned so that more knowledge can be derived from the projects financed.
- 1.51 **Neither could any client evaluations be found for the projects financed that would have provided feedback on the quality of the services and project impact on the enterprises and the beneficiaries and their families.** For example, as part of its work, OVE conducted an evaluation of 600 microentrepreneurs targeted under microfinance programs, using a methodology¹⁴ adaptable to other types of programs at a low cost. The evaluation revealed interesting ways to improve MIF activities and the services support and to create new opportunities for products for the institutions.
- 1.52 **Human resources projects posted the highest evaluability levels, with approximately one of every two projects achieving satisfactory ratings.** These projects were more proactive, anticipating needs and resources for monitoring and impact studies, but with difficulties in implementation. In the cases reviewed, most of the projects had mid-term evaluations, but few had impact evaluations, even though impact evaluations were called for in half of them.

¹⁴ See <http://www.mip.org/componen/aims/pubs/spanish>.

II. COMPETITIVE ADVANTAGES OF THE MIF

2.1 The evaluations provided a deeper knowledge of the MIF's main capacities with regard to private sector development, in particular taking into account the vision and perception of the clients, both end-beneficiaries and intermediary institutions, as well as the public sector. Certain competitive advantages of the MIF could thus be clearly identified. These should prove key in approaching new initiatives. An awareness of its advantages will also help the MIF enhance its efforts to sustain and improve them over time.

- **Exclusive focus on private sector promotion and development.** The MIF's specific mandate to promote the private sector, although broad, differentiates it from other technical-cooperation funds and forces it to focus its activities on the challenges for private sector development in Latin America and the Caribbean. There are no other institutions or funds of this type in any other region in the world.
- **Focus on innovation and reasonable tolerance of failure.** The MIF has a special mandate to promote innovation that singles it out among other institutions. The evaluation showed that it has a solid capacity to generate innovative proposals continuously over time. Because of the experimental nature of its operations, the MIF can participate in activities with a higher risk/reward profile than the rest of the Bank Group. Moreover, the concessional funding it grants helps it defray project startup costs, generating additionality that other sources of funding in the region do not have. These features have given the MIF a unique capacity to take risks and tolerate failures that have left lessons learned to help chart new courses of action.
- **Preferential access to the institutional capacity of the Bank and its network of Country Offices.** Through its administration agreement with the Bank, the MIF has key access to the Bank's institutional capacity, with all the implications in terms of the drawing power in the countries, dialogue with government authorities, information and sector knowledge in a wide array of crucial areas for development in the region. The MIF's relationship with the Bank Group can be used as link to launch a series of activities and to enhance private sector access to dialogue with the governments on legal and regulatory issues. There is considerable potential for improvements in this respect. The MIF's advantage could be strengthened by exploring systems for incentives in performance-based remuneration for products and results achieved, for technical supervision of projects based on Bank capacity, and for joint work to achieve specific objectives.

- **Sensitivity and responsiveness to market needs.** MIF operations for private sector development provide access to a “retailer” client base that did not traditionally have access to the Bank Group. This type of intervention requires the MIF to be in direct contact with entrepreneurs who own businesses of various sizes. This contact makes the MIF particularly sensitive to the issues affecting the private sector in the region. The evaluation findings confirmed the MIF’s capacity to address highly relevant issues in its operations. This enormous advantage has grown and developed over time. The MIF could expand and consolidate it by strengthening its capacity to generate market information.
- **Foundation for a broad network of key institutions linked to private sector development.** The MIF has linked its activities to a large group of strategic partners in both the public and private sectors in ways that would not be accessible for most of the countries or for their enterprises on an individual basis. It has thus laid the foundations for a network with the potential to prompt changes that would help develop the private sector and disseminate innovations in the provision of services and exchange of knowledge. Networks have been developed in such areas as microfinance and remittances, quality, worker skills, alternative dispute resolution, sector regulatory bodies for infrastructure, and venture capital. The evaluation required OVE to build a large database of executing agencies and experts associated with MIF project implementation, which was used to conduct surveys and interviews. The database could be expanded and improved so that it could be used for market research that will strengthen the relevance of MIF activities, dissemination of lessons learned, and development of new areas of activity in the future.
- **Potential expansion and deepening of areas that have been particularly relevant and successful during the MIF’s first 10 years of operation.** The evaluation found that MIF activities were important in certain areas linked to private sector development. The MIF has great potential to build on variations of the areas and business models that have proven successful. For example, the development of new business models with the potential for replication and/or deepening in such areas as microfinance and remittances, alternative dispute resolution, and consumer protection illustrate the wide range of possibilities for the MIF to capitalize on institutional investments, replicating models and serving new basic needs for the private sector.
- **Wide range of instruments for intervention.** The MIF has a wide range of instruments, from nonreimbursable and contingent-recovery technical cooperation funding to lending and quasi-equity and equity investments. This extensive gamut allows a multitude of possible interventions that can be concurrent and/or sequenced and are not available from any other multilateral institution. In the past, the main instruments used were nonreimbursable

technical cooperation and equity investments. In the future, to enhance leverage and efficiency in the use of its resources, the MIF should explore making greater use of contingent-recovery technical-cooperation funding, along with guarantees, loans, and quasi-equity investments. In addition, in the case of technical-cooperation funding, particularly for more specific areas activities, the MIF could explore and expand the use of small projects in amounts below US\$150,000.

- **Flexibility and capacity for learning.** The way the MIF operates is extremely flexible, addressing a wide range of areas simultaneously and adjusting its instruments and types of activity over time. Actually, the evaluation showed that major changes have been made during the MIF's years of operation as a result of in-depth reviews such as the Perry Report in 1997 and the Working Group Report in 2000. The reviews led to changes in the MIF's instruments for intervention, and with visible improvements in the general levels of innovation, sustainability, and additionality. Although this capacity for self-evaluation is considerable, the evaluation systems and instruments need to be strengthened to take advantage of the MIF's experimental potential in greater depth.
- **Potential for economies of scale.** The MIF can make "wholesale" purchases of goods and services that can be useful for a multitude of activities, as identified in the evaluation of several project groups. Moreover, its extensive geographical coverage and wide range of areas of activity afford it the opportunity to make economies of scale, including rapid transfer of best practices.
- **Recognized capacity in certain areas and potential for greater leveraging of resources.** In several areas in which the MIF has played a special part in promoting and positioning the issues, such as microfinance, remittances, quality, alternative dispute resolution, and venture capital (particularly in Brazil and Chile), future action will have a greater chance of attracting financing under initiatives by other parties. This is because the main value added by the MIF is its ability to give a "quality seal" in the selection of certain partners based on their proven capacities demonstrated in earlier stages. The MIF could strengthen its leveraging effect through standardized systems for the selection of its partners. This advantage could also help improve the likelihood of success in motivating large enterprises interested in supporting certain initiatives, and give partners access to international and local funds that may be associated with the new initiatives to be financed.

III. AREAS OF OPPORTUNITY FOR FUTURE MIF ACTION

3.1 The evaluation findings and competitive advantages of the MIF identified helped delineate certain key areas of opportunity for the future course of action, including both strategic and operational opportunities.

A. Strategic opportunities

1. Strengthen the MIF's role as a laboratory

3.2 **In addition to the MIF's advantages as a technical cooperation fund and its focus on private sector issues, the evaluation findings clearly show that the MIF has distinct advantages as a laboratory to test effective new approaches to policy and/or business models for the private sector in the region.**

3.3 This laboratory role requires, first of all, improving the evaluability of MIF projects, starting with a precise definition of the problems to be addressed, the proposed project objectives, and the way lessons learned from the innovations made are to be drawn and disseminated. This issue of evaluability should thus not be construed as a burden, but as a key instrument to help select, implement, recognize, learn from, and disseminate the innovations promoted by the MIF.

3.4 The evidence found in the evaluation suggests that this laboratory role could take two different forms that are not mutually exclusive. However, a keen awareness of the perspective is required, and policies and procedures need to be formulated to ensure a focus on the selected course in order to maximize the proposed impact. For both approaches, the MIF's relationship with the Bank must be identified.

3.5 **One course to follow is for the MIF to become a "principal" in an area, carrying out most of the activities and exerting strong leadership in it.** The opportunity for a role as "principal" would arise when the area has not previously been addressed by the Bank, or when the Bank's activities in the area are still relatively embryonic and there is great potential complementarity with the MIF action, as was the case for alternative dispute resolution, venture capital development, and microfinance beginning in 1995. The role of "principal" involves certain rights and obligations. In terms of obligations, as "principal," the MIF would have to make major investments in knowledge of the market and the areas in which it plans to invest, while still having an adequate "platform" of human and institutional resources. The latter do not necessarily have to be in the formal MIF administrative structure, but do need to be accessible to strengthen MIF activities and leadership in the area. This approach also implies allocating more resources to project identification, and becoming more involved in project execution and evaluation. Here the MIF should maintain linkage with other institutions, giving its projects a systemic focus so that they do not remain small and isolated. This means

exploring beforehand whether there is any concrete, relatively organized interest in supporting project expansion at the national or regional level if the project is successful. In terms of rights, the position of “principal” allows more leeway in the selection of certain areas of activity that are still embryonic but have great potential, ensuring greater control over the processes and results to be obtained, and exercising stricter compliance with certain requirements.

3.6 **The other course to take is to assume the role as “agent,” to help leverage MIF resources with the Bank and other institutions.** This is the role the MIF has taken in the past in broad areas such as financial reform, capital markets, and private participation in infrastructure. However, it has always encountered difficulties in project targeting and dilution over a large number of areas and activities. The challenge for the MIF in this role as “agent” is to identify a limited number of niches in terms of areas of activity, countries, or regions. Such an approach, however, will force it to establish clear, simple rules for eligibility and performance requirements under which it would be willing to finance initiatives. This role will empower the MIF to demand competence in the fields targeted under the initiatives carried out, such as innovation, and at the same time to establish systems to reward performance and successful achievement of project objectives.

3.7 With respect to the Bank, acting as an “agent” implies deciding whether it will be a “partner” or “promoter” of innovations. In spite of certain weaknesses detected in the ex ante institutional analysis, the MIF has been successful in finding good partners and giving them resources to carry out innovation. However, it has been less successful in actively promoting its own line of action. Partnership-seeking requires agility, market sensitivity, and an ability to discern the quality of potential partners. Promotion requires a foundation of solid experience, products and services that are recognized on the market, and a significant long-term presence in the region. Because the MIF is relatively small, it cannot implement its own agenda in complex areas. Instead, it must work through partnerships, leveraging other development initiatives.

2. Strengthen the strategic focus to maintain high levels of relevance and effectiveness

3.8 **The evidence found in the evaluation indicated that the challenge for the MIF will be to maintain high levels of effectiveness in addressing such a broad range of important issues for private sector development.** A clear opportunity can be seen in the need for MIF activities to be better targeted to a smaller number of areas. Among the project groups evaluated, the results were better when a critical mass of interventions was consolidated and maintained over a considerable period of time (three to five years) in a given area, such as microfinance or alternative dispute resolutions.

- 3.9 **In broader areas, such as infrastructure, capital markets, or financial reform, the MIF had difficulty targeting its efforts, which were spread out over a large number of initiatives.** In these projects, there was little linkage among issues, less likelihood of adequate technical monitoring, and lower levels of performance. More prior analysis of the sector is necessary to clearly identify where the market niches for MIF intervention are, depending on its competitive advantages.
- 3.10 **An interesting example of MIF activity in a broad area but with greater selectivity was human resources.** In this case, the projects addressed very specific issues such as retraining systems for workers displaced by privatization, innovative systems for private placement services and technical training, and development of industry-sponsored training systems geared towards worker skills. The projects that were more consistent with the strategic focus were precisely the ones that achieved the highest levels of effectiveness, by generating a higher value added on the part of the MIF and being more effectively linked to other initiatives by the Bank and in the countries.
- 3.11 **Other challenges for strategic selectivity occurred when the MIF diverted its attention to a large number of countries without carefully reviewing the set of conditions for success in this type of intervention, and without previously developing a menu of options more appropriate for the various levels of development and situations.** The clearest example of this case was in the venture capital project group. There the MIF emphasized the use of funds in multiple situations, without taking into account a series of key conditions for industry development, which requires prior activities and other complementary intervention, in such areas as technology development, appropriate regulations for the funds, a securities market, and trained administrators.
- 3.12 **Another way in which the MIF has improved its strategic focus and selectivity in its operations was by launching project clusters.** Although this approach represented considerable progress, the evaluation revealed difficulties in implementing the programs under the clusters, since there has been a tendency to replicate the types of activity without a proper review of their relevance to the situations in other countries. In other words, there is a tendency to replicate operations without paying due attention to context, using an operating “mold” and ending up in situations with little relevance, as occurred in certain environment projects. From a strategic perspective, the most important problem is proper selection of the areas of activity under the clusters. To date, no evidence could be found of any in-depth analysis of the various thematic alternatives, taking into account the strengths, weaknesses, opportunities, and threats¹⁵ of possible MIF operations. The SWOT analysis could be more informed, since much more is now known about the competitive advantages of the MIF and the problems it has had launching certain types of operations in certain areas.

¹⁵ SWOT analysis.

- 3.13 **A sharper focus and strategic selectivity would require careful definition and monitoring during project execution.** This approach would demand greater MIF investment in sector studies on issues that could be declared of strategic interest, so that: (i) the analytical foundations are laid for intervention in the proposed area, compared with other alternatives; (ii) the rationale for MIF intervention is clearly established in accordance with its competitive advantages and complementarity with other players; (iii) specific guidelines are formulated indicating the context necessary for the interventions, in order to ensure the selection of countries in which implementation would be relevant; and (iv) the niches and types of intervention are identified.
- 3.14 **Another problem in improving the strategic focus can be the loss of experimental capacity in fields that do not necessarily match the areas of activity assigned priority.** Moreover, in several of the projects evaluated, in such areas as worker skills, project design was forced to yield to MIF priorities and the initial focus of the requesters was altered without their full understanding. This led to a lack of ownership and problems in execution, or to a project orientation that deviated from the original idea proposed by the executing agency.

3. Adjust the instruments for intervention to improve project effectiveness and efficiency

- 3.15 **To simplify, MIF project objectives can be divided into two categories: long-term activities to support reform processes, generally spearheaded by the Bank; and short-term, targeted, specific activities, designed for instance to enhance market operation and introduce new business models for the provision of services.** Since the planning horizons for the two types of activities are very different, project organization and resource allocation should also differ considerably.
- 3.16 **Long-term activities are usually implemented more efficiently if the repetitive activities are organized around core services and shared experts available throughout the project execution period in different countries.** The MIF could consider providing centralized services¹⁶ to support long-term projects. Significant economies of scale could thus be achieved, delays in the provision of key inputs for the reforms would be avoided, and a certain level of quality would be guaranteed to be available for all the countries in the region. The current situation, in which certain countries, especially the smaller ones, are unable to defray such expenses or attract that level of expertise, could thus be avoided.

¹⁶ This does not imply an increase in MIF staffing for centralized services, only that the services can be more effective with their current capacity or could be obtained through regional technical cooperation or management contracts.

- 3.17 **For medium- or short-term activities, MIF intervention needs to be adjusted to include new instruments in smaller amounts, even smaller than for projects under the current lines of activity, with limited transaction costs and an expeditious mechanism for approval and execution.** In many cases MIF activities are designed to address specific technical assistance issues, particularly in the framework of broader reforms in financial markets, infrastructure, or human resources, in which windows of opportunity are small and associated with given political time frames or market circumstances and therefore require prompt resolution of certain situations. An example of possible instruments would be the former “short-term missions,” which had a cap of US\$30,000 and were used by the Bank to approve technical assistance expeditiously. In many cases, given the specialized areas involved and the streamlined procedures, the executing agencies would delegate hiring of the necessary experts to the Bank. They could then avoid having to draft contracts or follow more complex procedures for eligibility for disbursement. Such mechanisms can also increase efficiency in the use of resources, generating basic information on specialized consulting services and their performance.

4. Align incentives with expected project results

- 3.18 **There is a major opportunity to include project management incentives for both the Bank and the executing agencies.** Mechanisms should be explored for remuneration of project management by the Bank, linked to project performance and the level of service by executing agencies. Decentralized project execution systems in Brazil and Peru have demonstrated their potential to change the disbursement system into a product- or results-based one instead of the usual approach of covering inputs. The possibility of expanding this experience should be explored, at least for certain types projects, to stimulate greater effectiveness and efficiency in the use of resources.
- 3.19 **A similar arrangement could be established for remuneration of key MIF-financed consultants to allow financial incentives (bonuses) if major project goals are achieved.** In addition, for key MIF-financed consultants involved in project implementation, bonuses could be included for the delivery of certain products deemed vital for program execution.

5. Promote competition for access to MIF resources

- 3.20 **The high levels of innovation are expected to become increasingly difficult to maintain, since the major changes in the markets in the region have already been processed.** Competitive systems for project selection could help promote higher levels of innovation. Future projects would be enhanced by a more open, competitive process to identify the most appropriate types of activities and projects to be financed. For instance, competition for MIF resources could be promoted internally for use in broad areas linked to Bank activities, or externally for specific

areas, such as participation in clusters.¹⁷ Moreover, beyond improving the transparency of the selection process, competition would also promote the use of more standardized parameters for institutional and market analysis, which the evaluation identified as two major weaknesses.

6. Develop and consolidate institutional networks as platforms for action

- 3.21 **Since the MIF has generated a broad base of institutions and individuals that have been key agents in private sector development in the region, it has an interesting network on which it could mount platforms for dissemination of knowledge and learning and develop new initiatives to promote the private sector in the region.** If the huge flow of experiences, knowledge, lessons learned, and institutional models found during this evaluation is associated with the network, it could be concluded that the MIF has accrued a wealth of intangible assets that should be considered one of its main competitive advantages for its activities in the coming years. The MIF must therefore invest in distilling this knowledge, for example by starting with the OVE evaluations of the different project groups and expanding, deepening, and subsequently transmitting them. Management of these intangibles should be part of the MIF's core work in the coming years and could be used as the platform to launch new areas of activity related to the emerging priorities in the region, promoting the replication of successful models, introducing new products and services in existing institutional networks, and exchanging information and lessons learned.

B. Operational opportunities

1. Improve project request processing and identification

- 3.22 **In several of the projects evaluated it was clear that the organization established in the Bank or the MIF determined how the projects would be processed. MIF projects are thus generated in various parts of the institution.** Some are received directly at Headquarters, some in the Regional Operations Departments, others in the central departments (such as INT or SDS), and still others in the Country Offices. No standardized procedure could be found in any of the respective manuals. Although some of them stipulate that the Country Offices should be consulted, in a number of projects it was not clear whether the Country Offices had participated and in some cases evidence was found that they had not been involved in project selection at all. This situation has led to problems of ownership and support for execution. Accordingly, the level of participation that the

¹⁷ This option was called for under the first line of activity for microfinance, but never materialized, losing the opportunity to enhance innovation under that program. In the case of ISO standards projects, competitions were held and demonstrated the advantages of such an approach, which stimulates maintenance of high levels of innovation in the selected area of activity.

different parts of the Bank can or should have in identifying projects should be clearly established.

- 3.23 **This lack of clarity about how, when, and by whom requests for or consultations on prospective new projects are received and authorized or rejected raises serious challenges in terms of transparency and the quality of service to the requesters of MIF resources for projects.** During the evaluation, the actual time required for project processing could not be verified. The Bank and MIF systems do not include any record of when a project request is received. The closest thing to a measurement is the registration date, which is when a project is assigned a technical cooperation (TC) number, but that is often several months after a request has been submitted. The biggest concern that arose from the evaluation, however, particularly in areas in which there are multiple prospective private partners that may eventually become recipients of MIF resources, was that no clear protocols could be found as to deadlines for registration of requests for financing, maximum time periods to respond to requests, assignment of staff authorized to reject requests, and standards for notification of the interested parties. Several executing agencies expressed frustration with the processing procedures, lack of clarity, and delays in response.

2. Develop a new role for regional programs

- 3.24 **Properly structured regional programs with highly qualified executing agencies may be a means of improving efficiency in areas common to several projects.** This type of activity has a role to play, particularly in areas in which economies of scale could be achieved and access to experts is problematic. To date, however, MIF regional programs have generally been difficult to manage. Coordination has been complicated because of the multiplicity of coexecuting agencies. The MIF could examine methods of improving coordination for this type of project, for example by making sure that regional projects are an integral part of sequenced activities at the country level, where the regional project includes common elements that will support management of the rest of the programs and contribute to sharing experiences and disseminating results.
- 3.25 **Regional programs can play a key role in improving efficiency, achieving economies of scale, and targeting support to a group of projects in a given area.** Because of its project-based, operational focus, the MIF has had to pay again and again for the same type of product or service (information systems, training curricula, technical materials, virtual libraries, and even regional or comparative studies) in different countries. The conception of programs revolving around a common issue in the region should involve prior exploration of alternatives for the provision of a series of common services for similar projects. Such a design would help ensure more efficient usage, higher quality, and more rapid dissemination of innovations.

3. Improve analysis of partners during the design phase

- 3.26 **Executing agencies as a group represent the distribution channel towards the private sector. Because of their importance, the MIF should cultivate them as soon as they are selected and even after project completion.** The MIF should determine in advance the desired profile of its executing agencies and the combination of executing agencies that would generate the highest value added for its strategic objectives. This would require establishing specific criteria for the selection of executing agencies and standardized guidelines on indicators of their institutional and financial capacity that would be part of the analysis for requests. Basic information could then be compiled in a standardized format and the prior analysis would be strengthened, thereby preventing the MIF from undertaking projects that would later fail due to insufficient executing agency capacity or a failure to provide the agencies with the necessary support.

4. Develop parameters and strengthen technical project monitoring

- 3.27 **Since the end-beneficiaries targeted are private sector entities, the MIF could consider redefining its projects in terms of outputs according to standard parameters for quality, cost, and delivery times, following the usual practice in the private sector.** To do so, it could explore realigning the way internal incentives reward project generation and supervision. This approach could lead, among other things, to reassigning responsibilities with a view to maximizing client focus and end-product quality. Mandatory involvement of the original project team during midterm and final evaluations and periodic reviews (PPMR) or in the case of unexpected delays or foreseeable circumstances might help enhance accountability, the commitment to results, and learning from experience for the benefit of other projects.
- 3.28 **An important issue to be addressed in monitoring, as suggested in the executing agency surveys, is specialized technical support during execution.** The executing agencies emphasized the value added by the MIF and the Bank at the design stage, but noted that during execution the emphasis was placed on processes, with limited technical support. Addressing this situation would imply redefining the procedures for participation and the division of labor between Headquarters and the Country Offices to assist projects through centralized technical support with a view to enhancing learning in the implementation of innovative models. Given the broad range of project areas and specialties, it is difficult for the Bank's Country Offices to have all the necessary specialized expertise at hand, but some type of technical support for program execution should be available. Some support has been provided under the project clusters, but the issue of Country Office responsibilities and authority still needs to be addressed, as does the need for local support in many cases.

5. Develop a portal to support project execution

- 3.29 **With regard to administrative processing and procedures, it is recommended that the MIF develop a portal of services for executing agencies**, where they could submit queries online, view frequently asked questions, submit complaints, find standard disbursement request forms, terms of reference, and procedures for the hiring of consultants and procurement, information on service providers, and so forth. The idea would be to simplify project implementation and improve the quality of service to executing agencies. The portal would also provide online systems to improve services and compile information and obtain feedback on potential problems in project execution.

6. Adjust procurement procedures

- 3.30 **Although other procurement procedures that are more appropriate for the private sector have been allowed, there was no evidence that they were used in the projects reviewed.** The contracts for the projects stipulate that other procedures may be followed, provided that “the provisions on appropriate use of the MIF contribution and the eligibility (MIF member countries) of goods are followed, as well as those pertaining to the economy and efficiency rule,” and “competitive methods whose features are in consonance with market practices and entity needs are used, and the prices, terms, and conditions meet the program needs.” However, none of the projects evaluated were found to have followed other procedures or standard procedures to ensure compliance by private sector executing agencies.

7. Monitor the local counterpart contribution

- 3.31 **Clear rules need to be drawn up on counterpart contributions and eligible expenditures and made accessible (for example by posting them on the proposed portal).** The evaluation found that counterpart funding is a systemic problem. The challenge is how to enforce it in a standard, easily verifiable, and transparent way in all the countries.

8. Improve risk identification and management

- 3.32 **The evaluation showed that better risk identification and management improves effectiveness. The MIF should redouble its efforts to promote discipline in clearly identifying the main problems involved in each project and the attendant risks, in order to improve effectiveness.** A change should be stimulated in the project preparation and design culture for the project team to specify project risks. To this end the signals sent by the Donors Committee to Management could prove vital. The experience accrued and evaluations conducted could be used to build a database on the risks associated with certain types of activities. Greater emphasis should also be placed on the fact that in pilot projects with a higher level of innovation, there is also the possibility of failure.

Accordingly, project design should include trigger mechanisms that would allow the MIF to “cut its losses” during execution before risks can jeopardize project results.

- 3.33 **In terms of their timing, trigger mechanisms should be phased in according to technical requirements in the form of easily verifiable indicators, as the MIF has been doing for portfolio supervision**, in order to avoid having to continue projects when certain originally expected circumstances do not materialize. This approach would help limit expectations and reduce the sense of failure on the part of executing agencies with respect to total disbursement, leading to inertia in execution that would not be conducive to achieving the expected results. It would also help the Bank/MIF manage the problem loan portfolio with clear rules established beforehand.

9. Establish clear rules for intellectual property rights to systems and innovations

- 3.34 **With a view to increasing efficiency and avoiding duplication, the intellectual property rights of the MIF to such items as information systems or course curricula should be reviewed, given that in several projects executing agencies were found to have had difficulty accessing systems previously financed by the MIF.** Clear rules and incentives for intellectual property rights need to be developed to promote standard systems or other innovations deemed critical for project execution. The issue should be addressed beginning at the project negotiation stage, then in the agreements, and lastly through mechanisms to secure the outputs of consulting services and information systems so that the MIF has access to them for subsequent dissemination and quality control.

10. Enhance access to and improve the quality of information on specialized consulting services

- 3.35 **For executing agencies, identifying high-quality specialized consulting services to address highly specialized areas was a frequent source of delays and frustration.** Because the MIF’s areas of activity are so specialized and innovative, it is often difficult for executing agencies in a country to find specialized consultants and also get information on their performance from other experts. Subject to the opinion of the Legal Department, this problem could be remedied by developing systems to share information on the outputs of consulting services rendered for a specific project but that could be used in others; compiling databases on the supply of specialized services (experts, consulting firms, specialized agencies, and so forth) with information on sources and their reliability; and setting up electronic systems on needs for specific technical assistance. For example, information could be made available to the Bank/MIF (for example through the Internet) on consultants that have already been hired and what projects they worked on, and even the reports they produced. This approach would help disseminate

information and knowledge, at least among Bank/MIF professionals and perhaps also to the networks of institutions in the region linked to the different areas of activity.

11. Improve monitoring and evaluation systems

3.36 **It is crucial to generate a set of indicators for activities and results so that performance can be measured throughout the project execution period and upon project completion.** The MIF also needs a centralized system for the selection and hiring; standardized terms of reference for similar projects; coordination among the various parties involved in project evaluation; and participation by all stakeholders. Coordination of evaluation activities will lead to economies of scale and a thematic focus.

3.37 **In addition, MIF activities should include selective measurements of the impact of the products and services provided on the end-beneficiaries, which will also help improve practices and performance in the design and implementation of new services.** A key condition for learning is for the evaluations to be made available both inside the Bank to the project teams and executing agencies and also outside the Bank. These instruments should be used to strengthen and provide feedback on the monitoring system used by the Bank through PPMRs.

C. Thematic opportunities

3.38 **Lastly, the evaluation found potential opportunities in the areas of activity evaluated, based on an analysis of the gap between needs of the market in which the MIF had a competitive advantage and the areas of activity selected in the project groups evaluated.** These opportunities are viewed simply as a way to help identify future areas of activity. In any event their analysis would need to be updated and deepened before MIF resources could be committed.

Table 3.1
Thematic opportunities

Project group	Replication of model	Variation of model	New product on institutional network
Financial reform and capital markets	Development of framework for regulation and financial supervision	Supervision of insurance and information clearinghouses with focus on underserved sectors (i.e. agricultural products)	Regulatory framework development and pilot projects with enterprises to develop new financial products for SMEs (leasing, factoring, trust funds, etc.)
	Microfinance information clearinghouses	Support for establishment and institutional development of new financial instruments tailored to institutional investors for sectors (i.e. SME and agribusiness)	Implementation of regulatory framework and development of systems for secured transactions

Project group	Replication of model	Variation of model	New product on institutional network
Microfinance	Microfinance development in rural areas	Use remittance activities to attract major players (banks, financial companies) to microfinance sector	Develop new products with microfinance institutions (insurance, equipment leasing, credit for productive housing)
		Enhance access to capital markets for microfinance institutions	
		Develop more efficient systems to enhance access to lending technology for microfinance institutions	
Alternative dispute resolution	Dissemination of experience in: - Labor disputes - Consumer protection		Development of new alternative dispute resolution services: -Small claims courts for SMEs -Government procurement -Health care services -Traffic and transportation - Trade integration
Human resources and labor market	Labor intermediation programs	Selective company-based training activities	Pilot projects in labor regulations and corporate conduct
	Systems for standards and skills in markets with high potential		
Private provision of infrastructure services	Institutionalization of programs to develop regulators and operators of private infrastructure services	Consolidate regulation activities in programs with satisfactory results to develop models for replication	Projects that generate a platform of services: for example, networks of regulators and systematized information for sector benchmarking
	Replication of infrastructure concessioning programs	Expand experience in concessioning for private participation in other sectors (such as health)	
		Development of small instruments for specific activities to address areas that would help resolve key issues for private participation in infrastructure	Development of new financial instruments to access capital markets and pension funds
		Regional projects to promote trade and integration	
Venture capital development	Develop platforms for information exchange and service to promote industry (such as INOVAR)	Joint programs with the Bank, in the context of financial reforms, to reform the regulatory framework for the venture capital industry	Develop soft financial instruments to mount financial vehicles that exploit opportunities to maintain environment and benefit small producers (i.e. carbon)
	Conduct activities to supplement the funds, in connection with studies on legal framework, development of fund administrators, and feasibility studies	Programs associated with lending for banking technology development that operate as interface with entrepreneurs and provide platforms for services	Develop financial vehicles that help expand financing for SMEs (trusts, factoring, leasing)

Project group	Replication of model	Variation of model	New product on institutional network
		New generation of funds that to the extent possible are bigger, more selective, and more flexible, with the participation of larger enterprises	
		Specific operations to adjust and supplement existing investments in order to ensure a demonstration effect	
Market operation: consumer protection, promotion of competition, and intellectual property	Replication of successfully tested models (selective participation in “last mile” reforms): -Promotion of competition - Competition in government procurement - Consumer protection (i.e. NGOs)	Possible focus on public infrastructure services	
		Promoting regional competition in government procurement	
		Intellectual property rights in areas of value to SMEs: - Franchises - Designation of origin, etc.	
Environment		Adaptation of environmental regulations to SME reality	Integrate ecoefficiency projects with corporate social responsibility projects to offer value chains and markets for cleaner products
			Promote adoption of certifications in increasing demand in developed countries (i.e. Eurepgap, sustainable tourism, etc.) with SME chains in the region, having large buyers integrated in the project ex ante
			Adjustment of enterprises to processes and requirements for trade integration
Business development services	Replicate and expand models for: - Support for trade facilitation (i.e. business intelligence and specialized services for competitive clusters) - Investments for trade integration	Replication of successful models for market generation (i.e. voucher system for microenterprises and matching grants for SMEs) linked to national systems for training and technical assistance	Generation of business platforms for SMEs, producing information on clients and capitalizing investment in previously supported suppliers of business development services (i.e. following the INOVAR model for venture capital development)